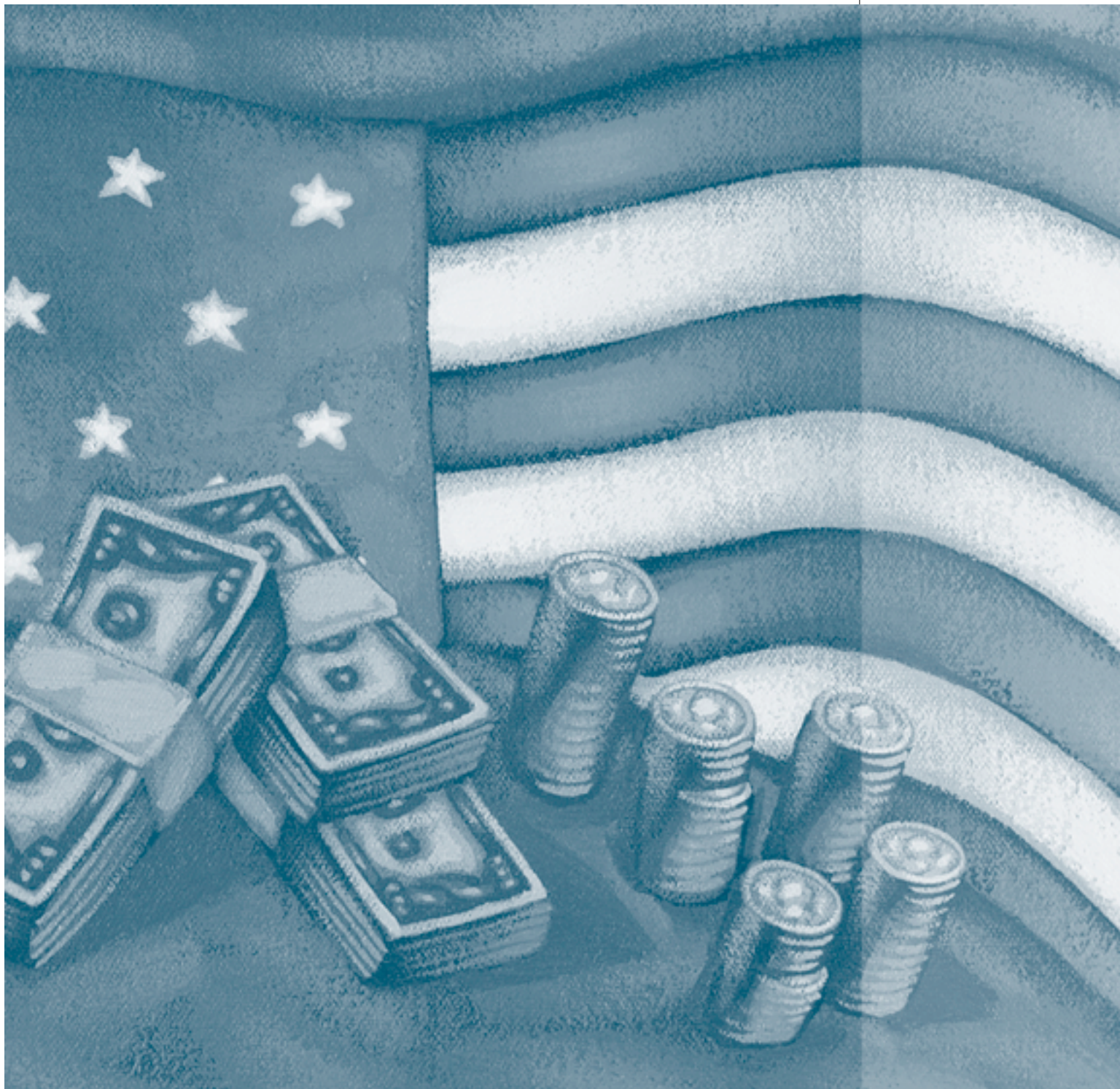


1998 Financial Report

1998

Issued July 1999



USCENSUSBUREAU

Helping You Make Informed Decisions

U.S. Department of Commerce
Economics and Statistics Administration
U.S. CENSUS BUREAU





**Economics
and Statistics
Administration**

Robert J. Shapiro,
Under Secretary
for Economic Affairs



U.S. CENSUS BUREAU
Kenneth Prewitt,
Director

William G. Barron,
Deputy Director

Nancy A. Potok
Principal Associate Director
and Chief Financial Officer

**Bureau of the Census
1998 Financial Report**

THE MISSION

The mission of the U.S. Bureau of the Census is to be the preeminent collector and provider of timely, relevant, and quality data about the people and economy of the United States.

OUR GOAL

To provide the best mix of timeliness, relevancy, quality, and cost for the data we collect and services we provide.

Our Strategies:

1. *Greater Customer Satisfaction—*

What our customers want must dictate what we do.

2. *Greater Productivity—*

Improved productivity results in lower costs, greater timeliness, and higher quality.

**3. *Better Public Perception
and Cooperation —***

By giving attention to public needs and concerns, we improve the public's perception of the Census Bureau and increase public cooperation with our censuses and surveys.

**4. *Develop a More Diverse,
Effective, and Skilled Work Force—***

We want to benefit from diversity, strengthen relationships with employees, and use highly productive teams.

1998 Financial Report

1998

Issued June 1999

Bureau of the Census



U.S. Department of Commerce

William M. Daley,

Secretary

Robert L. Mallett,

Deputy Secretary

Economics and Statistics Administration

Robert J. Shapiro,

Under Secretary for
Economic Affairs

U.S. CENSUS BUREAU

Kenneth Prewitt,

Director

Message
from the
CHIEF
FINANCIAL
OFFICER

The business of the Bureau of Census (BOC) is doing large surveys and censuses. Paramount among these is the Decennial Census of Population and Housing. Census 2000 will be the biggest in America's history. The Census Bureau is committed to making this extremely complex undertaking the most accurate in recent history.

Lesser known but no less important censuses took place in FY 1998 — the 1997 Economic Censuses and Census of Governments. These are the cornerstones of U.S. economic statistics, providing five year benchmarks on this Nation's businesses, industries, and non-federal governments. This round of censuses incorporated the new North American Industrial Classification System, the first sweeping update in decades of how industries are classified, to reflect major changes in economic sectors, such as technology and services.

The ongoing Current Population Survey completed another year of reporting the Nation's employment and data on income and poverty. Major surveys on American Housing, Crime Victimization, Health, and more were carried out by the BOC on a reimbursable basis for client agencies to supply current information on this country's people and how we live.

Viewed in their totality, the information products we create with the data we collect support the Department of Commerce's mission to promote job creation, economic growth, sustainable development, and improved living standards. We work in partnership with businesses, universities, communities, and other government agencies —Federal, State, Local, and Tribal.

The BOC took a significant step in FY 1998 to improve its financial control structure by successfully piloting the new Commerce Administrative Management System (CAMS) for the Department of Commerce. This state of the art integrated relational database is now the BOC's financial and administrative management system of record. CAMS provides a framework to improve financial reporting for program managers, preparation of financial statements, and conformance with recommended accounting standards and principles for the Federal Government.

Responsibility for the financial information presented in this Annual Financial Report rests with BOC's management. The BOC prepares its financial statements in conformity with generally accepted accounting principles for the Federal Government.

We look forward to further success in FY 1999.

Nancy A. Potok
Chief Financial Officer

A handwritten signature in black ink, appearing to read "Nancy Potok", with a large, stylized flourish extending from the end of the signature.

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Overview: General Information

General Information

The U.S. Bureau of the Census (BOC) is the largest statistical agency of the Federal Government. It conducts:

- the constitutionally mandated (Article 1, Section 2) Census of Population and Housing every ten years for apportioning seats in the House of Representatives,
- eight censuses related to economic entities and State and Local governments every five years, and
- more than 100 demographic and economic surveys on a monthly, quarterly, and annual basis.

The vast array of data the BOC collects describes the Nation's population, housing, businesses, governmental finances, foreign trade, and other vital characteristics. Its analysis forms the basis for fiscal and policy decisions by the Administration; the Congress; business leaders; state, local and tribal planners; trade associations; and academicians.

The BOC is composed of three program areas—Decennial, Economic, and Demographic. Statistical research, financial, administrative, and information technology divisions support the work of these program areas. In addition, a corps of

field representatives carries out the direct collection of survey data through 12 regional offices across the United States. We operate three computer-assisted telephone centers. Our National Processing Center, in Jeffersonville, Indiana, handles data processing, warehousing, publication distribution, and geographic services. The BOC's headquarters is outside Washington, D.C., in Suitland, Maryland, which is located in Prince George's County.

Our mission is to be the preeminent collector and provider of timely, relevant, and quality data about the people and economy of the United States. Our goal is to provide our customers with the best mix of timeliness, relevancy, quality, and cost for the data we collect and services we provide. Our mission and goal support the Department of Commerce's (DOC) mission to promote job creation, economic growth, sustainable development, and improved living standards by working in partnership with businesses, universities, communities, and workers. We do this through the decennial census, quinquennial economic censuses, and numerous economic and demographic surveys that measure changing individual and household demographics and the economic condition of the Nation.

Major Programs and Funding

Census 2000

The decennial census is the Nation's oldest and most comprehensive source of population and housing information. The U.S. Government uses our count of the population in each state to apportion the seats in the House of Representatives. The decennial census data is also used in redistricting decisions and the distribution of billions of dollars of Federal funds. Besides its widely known decennial census activities, the BOC has two other major data programs—Economics and Demographics.

Economics

The diverse activities of this program produce information critical to the economic functioning of the United States and

its citizens. Data such as housing starts, retail sales, wholesale trade, merchandise imports and exports, mining and manufacturing are collected each month. These data support several leading indicators of national economic performance that shape the decisions of Wall Street investors and the Federal Reserve Board.

In FY 1998 we conducted the economic census, which provides a detailed portrait of the U.S. economy, from the National to the Local level. Its scope is reflected in the fact that we sent questionnaires to five million establishments. The BOC conducts this census every five years.

Demographics

Important demographic program efforts include: the preparation of official population estimates and projections, plus the collection of survey data for official

Actual Obligations

In thousands of dollars

	Total	Current ¹ Programs	Survey ¹ Program Dynamics	Periodic Programs	Reimbursables
1996	\$462,999	\$133,417	\$5,903	\$157,675	\$166,004
1997	516,359	134,890	9,999	215,889	155,581
1998	864,233	135,920	9,978	545,975	172,360

¹ 1998 actual obligations consist of \$146,660,000 in FY 1998 obligations offset by \$702,000 in prior year credits.

statistics on income and poverty, families, race and ethnic groups, and the Nation's housing characteristics. The collection and analysis of housing and socioeconomic data also supports the decennial census program. Federal government agencies use our program data to allocate billions of dollars in federal funds every year. It also sets the definitions and standards used throughout the Federal Government for policy decisions (e.g., definitions of race and ethnicity, metropolitan statistical areas, poverty, and more.)

The demographic programs continued to develop several major initiatives in the fiscal year. We continue working on the Continuous Measurement Program, which will provide annual population and housing profiles. This is data we now obtain only every ten years from the decennial census long form. The main components of the Continuous Measurement Program are the American Community Survey and the Small Area Income and Poverty Estimates program, which produces current estimates of population and housing characteristics derived from statistical models.

Reimbursable agreements with other Federal agencies comprise a large part of the demographic programs. For example,

data from our Consumer Expenditures Survey is an important element of the Consumer Price Index, which the U.S. Bureau of Labor Statistics calculates and publishes. The Current Population Survey gathers data to calculate employment and unemployment statistics. Our Survey of Income and Program Participation (SIPP) provides other government agencies with the data to evaluate the effects of their programs upon the population. SIPP also provides insights into the causes of changes in an individual's economic situation. This type of information is invaluable to policy makers who work to make government entitlement programs, such as welfare, as effective as possible.

Year 2000 (Y2K) Issues:

Concerning the Y2K issue, the BOC reports the following on its:

1. State of readiness,
2. Cost to address Y2K issues (historical and estimated future costs), and
3. Risks and contingency plans.

The Year 2000 Project Management Team, with assistance from the Census Year 2000 Working Group, manages the Y2K project. We obtained contractual support

and assistance in September 1996. The assessment of all systems was completed in March 1997. The BOC has completed all software renovation for mission critical systems and completed testing in December 1998. We created a separate testing environment, and the BOC also has contractor support for independent validation and verification (IV&V). All mission critical systems will undergo IV&V. The BOC will ensure that all products and services are Year 2000 compliant. This will include the upgrade or replacement of hardware, software, environmental systems, and commercial-off-the-shelf products.

Historical Y2K Costs

The following historical costs are based on lines of code collected during the Assessment Phase as well as any cost incurred at the Bowie Computer Center attributable to the Y2K effort. Since the renovation/conversion of software code is being undertaken by in-house staff, their cost was determined based on lines of code renovated or converted. These Year 2000 costs are reflected in the Bureau's Information Technology Plan.

Risks for the worst case scenario for the BOC would involve either:

1. Electrical failure in Prince George's County or

Year 2000 Historical Costs

In thousands of dollars

Fiscal Year	Historical Cost
1996	\$200
1997	1,250
1998	*13,971
TOTAL	\$15,421

** This cost includes \$13,000,000 based on lines of code and \$971,000 from the Bowie Computer Center.*

Breakdown of Y2K Funding Requirements

In thousands of dollars

	FY 1999
Validation	\$9,400
Embedded Chips	1,600
Telecommunications	2,000
Software Upgrades	500
Contractor Support	1,000
Census Facilities IV & V	1,400
Decennial Facilities IV & V	5,000
TOTAL Y2K FUNDING REQUIREMENTS	\$20,900

2. Telecommunication failure in Prince George's County.

In either event, mission critical processing could continue with minor delays. The Bowie Computer Center (BCC), in Bowie, MD, houses our centrally managed computer hardware. The BCC is equipped with eight 1250-KW emergency diesel powered generators capable of providing continuous electrical power to the building for up to three days. In case of telecommunications failure, application developers would perform mission-critical processing from the BCC.

Funding

Our activities under Salaries and Expenses and under Periodic Censuses and Programs support two of the DOC's Strategic Themes: "Economic Infrastructure" and "Science/Technology/Information." The BOC has three sources of funding:

1. We receive an annual Congressional appropriation for Salaries and Expenses, which funds the current

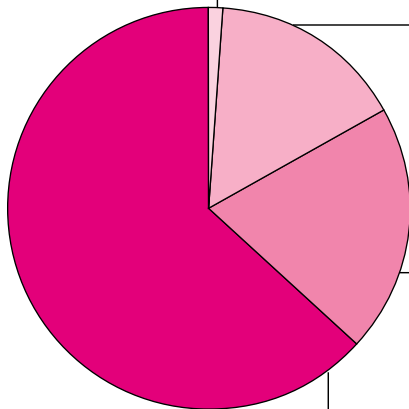
programs and ongoing surveys. The FY 1998 appropriation was \$137,278,000. We also receive an additional \$10,000,000 separately appropriated by the Responsibility and Work Opportunity Reconciliation Act of 1996 (Welfare Reform). We use this appropriation for the Survey of Program Dynamics.

2. We receive a Congressional appropriation for Periodic Censuses and Programs, which funds cyclical programs, such as the censuses every five or ten years. The 1998 appropriation was \$551,813,000.

3. Reimbursable programs receive funds from other organizations, such as the Departments of Labor, Health and Human Services, Housing and Urban Development, Justice, and others, in exchange for our survey and data collection activities. The BOC's actual reimbursable funding was \$172,359,996 in FY 1998.

Actual FY 1998 Obligations

In thousands of dollars



BOC Budget

Survey of Program Dynamics—1%
\$9,978

Salaries and Expenses—16%
\$135,920

CURRENT INDICATORS—DEMOGRAPHIC

- Fertility
- Family and Personal Income
- Distribution Statistics
- Migration Statistics
- Poverty Statistics
- Black and Ethnic Statistics
- Current Housing Characteristics
- Vacancy Statistics
- School Enrollment and Educational Attainment
- Family Relationship and Marital Status

CURRENT INDICATORS—ECONOMIC

- Retail Sales and Inventories
- Wholesale Sales and Inventories
- Manufacturers Shipments, Inventories, and Orders
- Housing Starts and Completions
- Value of Construction Put in Place
- Merchandise Trade Balance
- Manufacturers Export Sales and Orders

Reimbursable—20%
\$172,360

- Veterans Administration
- State Department (AID)
- Department of Agriculture
- Housing and Urban Development
- Department of Defense
- Department of Justice
- National Science Foundation
- Department of Labor
- Department of Commerce
- Health and Human Services
- Department of Energy
- Department of Education
- Department of Transportation
- U.S. Fish and Wildlife Service
- Other Federal Agencies
- Private Sector

Periodic—63%
\$545,975

CENSUSES AND PROGRAMS

- Population
- Housing
- Economic
- Governments

Overview: Accomplishments

Accomplishments and Performance Measures

Strategic Themes, Goals, Objectives, and Performance Measures:

In 1998, we continued to develop our performance measures as required by the Government Performance and Results Act. The BOC will have performance measures for its mission critical programs in FY 1999 that support the DOC 's strategic plan.

The BOC's business is large-scale surveys and censuses. Our FY 1998 accomplishments support the DOC's strategic themes, goals, and objectives. In particular, the BOC supports two DOC themes. Theme One of the DOC strategic plan addresses the economic infrastructure. Under this theme, the BOC's work supported the DOC goal to improve national and local census and survey data through better business practices and public cooperation. Theme Two of the DOC plan addresses national policy and issues of Science and Technology Information. Under this theme, our goal is to provide products and services of greater value and satisfaction to the BOC's national and local information base customers.

FY 1998 Performance Measures

In the following sections, we show our results against FY 1998 DOC perfor-

mance measures and our performance measures for FY 1999. We show our progress against the DOC performance measures by major program area.

Census 2000

The BOC passed several milestones on the path to Census 2000 in FY 1998. Furthermore, we are on target to meet the performance goals in the DOC's FY 1999 Annual Performance Plan.

In FY 1998, we awarded a contract for developing four Data Capture Systems and Operational Processing Centers. The 12 regional census centers, which will manage field operations and data collection, are open. We are recruiting field staff and setting up field offices to support the address listing operations in 1999. As of FY 1998, we have completed 25 percent of non-city style address listing. The BOC continues to work toward establishing its field partnerships. By July 1999, we will deliver an address file to contractors for labeling and printing the shortest census questionnaire form since the 1830 decennial census. And, to increase the participation of U.S. citizens in Census 2000, the BOC will contract, in 1999, for a nationwide network of telephone services for telephone questionnaire assistance.

Program and Performance Measures

	Actual FY 1998	Target FY 1999
Decennial Census		
Establish Processing Centers (#) ¹	0	4
Establish Regional Census Centers ²	12	0
Canvass 94 million City Style Addresses (% completed) ³	0	100
Canvass 24 million Non-City Style Addresses (% completed) ⁴	25	100
Establish Field Partnerships (% of total plan) ⁵	42	89
Print Census Forms (% of total plan)	—	100

¹A decentralized data processing facility that receives questionnaires by direct mail and/or from a field office and processes the data in preparation for tabulation and publication.

²A temporary decennial census office that manages field office activities and conducts geographic programs and support operations, such as automated map production.

³Operation to update our address list in areas that typically use house number-street addresses for mail delivery.

⁴Operation to update our address list in areas that typically do not use house number-street addresses for mail delivery or are remote.

⁵Partnerships with state, local, and tribal governments, community groups, the U.S. Postal Service, and private parties to assist with address list update operations.

Economic Programs:

For Current Economic Statistics in FY 1998 and FY 1999, the BOC reports the following progress against the DOC performance measures:

In FY 1998, we released our ten monthly and three quarterly reports for the Principal Federal Economic Indicators. The BOC also will produce these reports in FY 1999. The Current Economic Statistics program will convert 100 of its surveys and its Business Register to the North American Industry Classification System (NAICS) in FY

1999. In FY 1998, we converted the Annual Survey of Manufactures to NAICS. This classification system recognizes 250 new service industries and recognizes advanced technology industries in the manufacturing sector.

For the 1997 Economic Census, data collection and processing activities continued into FY 1998. We have, though, increased our targets on the number of reports the BOC will release in a NAICS format.

Program and Performance Measures

	Actual FY 1998	Target FY 1999
Current Economic Statistics		
Convert surveys to North American Industry Classification System ¹		
Number of Surveys converted to NAICS	1	100
Percent of Surveys Converted to NAICS	<1	70
Percent of Business Register converted to NAICS (7 million) ²	0	100
Release of Principal Federal Economic Indicators ³		
Number of Monthly Releases	10	10
Number of Quarterly Releases	3	3

¹The new economic classification system that replaces the 1987 Standard Industrial Classification for statistical purposes. The NAICS is a numerical code system the United States, Canada, and Mexico use to classify establishments by type of economic activity.

²The Business Register is a list of business establishments and enterprises used as a sampling frame for economic surveys and an enumeration list for the economic censuses.

³See list of Economic Indicators on page 7.

Demographic Programs:

The BOC reports the following results against its performance goals in the DOC's

Program and Performance Measures

	Actual FY 1998	Target FY 1999
Economic Census		
Release of NAICS-based reports:		
Number of reports	0	800
Percent released	0	67

FY 1999 Annual Performance Plan:

The demographic program area met its goal of 16 data releases for the Economic Status of all U.S. Households and with a cross-sectional household survey response rate in the 89-95 percent range. This is the performance goal for FY 1999 as well. In FY 1998, as part of our Continuous Measurement Program, the BOC tested the American Community Survey in nine cities, hitting its target number of cities and achieving a 95-98 percent response rate. The BOC will maintain a 95-98 percent final

Program and Performance Measures

	Actual	Target
	FY 1998	FY 1999
Current Demographic Statistics:		
Current Demographic Statistics:		
Describe Economic Status of all U.S. Households		
(Number of Data Releases) ¹	16	16
Maintain cross-sectional household survey response rate		
(Acceptable range in percent):	89-95	89-95
Continuous Measurement:		
Maintain American Community Survey final response rate		
in acceptable range while opening additional survey sites		
Number of Sites	9	31
Response Rate Range in Percent	95-98	95-98

¹See list of Demographic Indicators on page 7.

response rate for the American Community Survey while opening additional survey sites. Budget constraints will limit the plan to 31 sites in FY 1999 with some reduction in the sample size for the largest sites.

Other Accomplishments

To ensure we provide products of greater value and satisfaction to all of our customers, with ease of access, and forming partnerships to improve the Nation's economic infrastructure, we have

taken the following steps beyond those in the DOC plan in FY 1998.

As part of our efforts to work in partnership with businesses and universities through a customer focused marketing plan, we completed an analysis of customers' transactions from a seven-year period. It revealed the BOC's key customers for data products. They are: (1) financial institutions, (2) colleges and universities, and (3) research, development, and testing organizations. These three markets

comprise 30 percent of our sales through the Customer Services Center. As a result, the BOC set up a four-target (including international markets) Corporate Marketing Program.

We also signed two new Cooperative Research and Development Agreements (CRADAs)—one with GeoResearch, Inc., and another with First Data Solutions. In FY 1998, an earlier CRADA produced two possible census data products with new mapping tools and geographic data combinations. It integrates 124 data sets into a single integrated product with easy-to-use data exploration and mapping tools.

To foster electronic access for statisticians, the economic, business, demographic, and policy communities, we awarded a contract to IBM for the Data Access and Dissemination System (DADS). The BOC has renamed DADS the American

FactFinder, which will be operational in January 1999. This system allows efficient and cost-effective access to data through the Internet. Initially, we will make available data from the 1990 Census of Population and Housing and the American Community Survey test and demonstration in the new system. We will release the 1997 Economic Census on a flow basis beginning in January 1999. The results of the Census 2000 Dress Rehearsal, conducted in 1998, will follow on a flow basis beginning in March 1999. The full range of Census 2000 data products will be available in the American FactFinder system. We will begin in January 2001, with the release of the state population totals for reapportionment and the detailed population totals (to the census block level) for redistricting.

Financial Management Information

Financial Management Organization

Changes in the Bureau of the Census' Financial Management Structure

The BOC made several organizational changes to improve its overall financial management in FY 1998. To that end, we retitled the Associate Director for Administration/Comptroller the Associate Director for Finance and Administration. Concomitant with that change, a Comptroller position was established to report to the Associate Director for Finance and Administration. The newly established Acquisition Division, along with the Budget and Finance Divisions, will report to the Comptroller.

Implementation of the Commerce Administrative Management System (CAMS)

The CAMS Pilot Project at the BOC is complete. The BOC is the sole agency in the DOC with the CAMS/Core Financial System (CFS) product in production. It is now the accounting and financial management system of record.

The CFS contains all the functionality required to support central accounting and

financial reporting. The BOC implemented and deployed the General Ledger, Budget Execution, and Cost Accounting modules. We also deployed the Receipt Management subsystem of the Accounts Receivable module.

In FY 1998 the CAMS implemented two significant purchasing modules: Commerce Small Purchases System and Commerce Purchase Card System. These modules allow for on-line entry of purchasing transactions into the CFS. These modules significantly increase the number of users accessing CAMS.

We deployed the Reimbursable Agreements subsystem of the Accounts Receivable module to selected divisions and offices.

Beginning in October 1997, the BOC directly interfaced the National Finance Center Payroll with the CFS. This reduced the payroll reconciliations process by reducing the number of accounts maintained to record payroll transactions.

The Finance Division is using the Accounts Payable module.

Obtain an Unqualified Opinion of the BOC's Annual Financial Statements

The Principal Associate Director and Chief Financial Officer places the highest priority on the successful implementation of CAMS and obtaining an unqualified audit opinion of the annual financial statements. Having CAMS up and running on time is critical to Census 2000 activities. In FY 1998, we launched a focused effort to complete reconciliation and verification of general ledger account balances. This will allow us in the future to complete our reconciliations on time and accurately.

Compliance with Federal Financial Management Laws

The BOC is committed to obtaining an unqualified audit opinion and complying with the Federal Financial Management Integrity Act (FFMIA). The FFMIA requires the on-time, accurate, and consistent processing and reporting of financial data. The Act requires maintenance of integrated financial systems that the BOC and others can audit.

To support the CAMS application, the BOC set up a working capital fund. In addition, the BOC revised its cost allocation system to assign indirect costs to all activities conducted at the BOC. We produce monthly reports and analyses to ensure the accuracy of the indirect cost allocations to support BOC business practices. This new cost allocation system and expanded Accounting Classification Code System move the BOC toward full compliance with the Office of Management and Budget Bulletin 97-01, Form and Content of Agency Financial Statements. When fully developed, the CAMS-CFS will support the report requirements in the OMB Bulletin 97-01, and its amendments, and comply with the Statement of Federal Financial Accounting Standards and its concepts.

The CFS provides certain systems controls and the detail of financial transactions. The CFS should assist the BOC in reaching its financial management goals of greater accuracy, being prompt, and producing auditable financial information.

Converting Payments to Electronic Funds Transfer (EFT)

The BOC has an EFT conversion plan. The plan includes converting: (1) salary payments, (2) wage withholdings, (3) vendor payments, and (4) miscellaneous payments to EFT. The plan also includes the pilot use of debit card technology for Survey Incentive Payments.

The Finance Division worked with the Field Decennial Management staff to develop a business case to support their plans for processing payroll for decennial employees. The BOC supports the Federal government's effort to convert all salary payments to EFT.

Ensuring Financial Systems Can Handle Year 2000 Transactions

All financial source data originating from legacy systems are Year 2000 compliant. This is the result of the design and implementation of the interface system developed to support the CAMS core financial system. The interface system selects, reformats and validates the accounting codes of all commitment, obligation, accrual, and disbursement

transactions recorded in the subsidiary systems before posting them to the CFS. The interface sends the fiscal year in a 4-digit format. The Budget Management Information System interface, similarly selects, reformats, and validates the accounting codes of all budget operating plan data. It does this before posting them in the core financial system's budget execution module. The budget system sends the fiscal year in a 4-digit format. We will replace all but a few financial subsidiary systems by direct entry of source financial documents into the CFS data entry screens. These screens are Year 2000 compliant. New off-the-shelf software will replace the few remaining mixed subsidiary systems. In some cases, the BOC will redesign and redevelop these systems to make them Year 2000 compliant.

Improvements to Identified Weaknesses

The 1997 *Report of the Independent Auditors* identified three nonconformance conditions. They reported one condition as a material weakness.

Reportable Condition (material weakness)—The BOC is not performing its reconciliations between the financial information system and its subsidiary records on time. In cases when the BOC did perform them, the reconciliations did not sufficiently document and account for all reconciling items. In addition, some reconciliations were missing evidence of supervisory review. Consequently, large unreconciled amounts accumulated during the year.

Status: Finance Division management is focused on the reconciliation effort. We have put the general ledger reconciliations into three categories of priority. We contracted for help in defining, completing, and documenting reconciliation processes and procedures.

Reportable Condition—The BOC does not have policies and procedures to determine the actual cost of items held in inventory for sale to other government agencies and to the general public. The Census Bureau's inventory consists of CD-ROM diskettes, technical documentation and videotapes.

Status: In March 1998, the BOC implemented a new automated order entry/

inventory system with the capability to reconcile inventory records to physical counts at year end and determine the actual cost of items in inventory. The BOC has developed a draft policy and procedures for producing and pricing Census Bureau CD-ROM products.

Reportable Condition—The BOC did not analyze its unbilled accounts receivable balance at September 30, 1997 to determine if outstanding receivable amounts were collectible. The Census Bureau did not periodically analyze its outstanding unbilled accounts receivable balances during FY 1997.

Status: In FY 1998, the BOC implemented the Reimbursable Management module which is integrated with the CAMS/CFS. The Reimbursable Management module provides the capability to ensure that outstanding accounts receivable balances, including unbilled amounts, are analyzed periodically to determine whether outstanding amounts are collectible or that appropriate actions are taken to resolve uncollectible amounts. The Finance Division follows up periodically to ensure that appropriate actions are initiated and resolution achieved.

Financial Information

Salaries and Expense (S&E)

The S&E funds available for obligation totaled \$147,278,000; this included \$10,000,000 pursuant to P.L. 104-193, Section 414(b) of the Responsibility and Work Opportunity Reconciliation Act of 1996. Actual obligations totaled \$146,660,000 resulting in an unobligated balance of \$618,000 for the year. These funds are no longer available for obligation. The BOC will return them to the Treasury.

Periodic Censuses and Programs (PCA)

New PCA funds available totaled \$551,813,000; plus \$3,190,000 in recoveries and a \$1,176,000 carryover from FY 1997. Actual obligations were \$545,975,000 resulting in an unobligated balance of \$10,204,000 at the end of the fiscal year.

Reimbursable

The FY 1998 obligations financed from reimbursable sources totaled \$172,359,996, including \$162,950,000 of services from other Federal agencies.

Trends in Principal Accounts

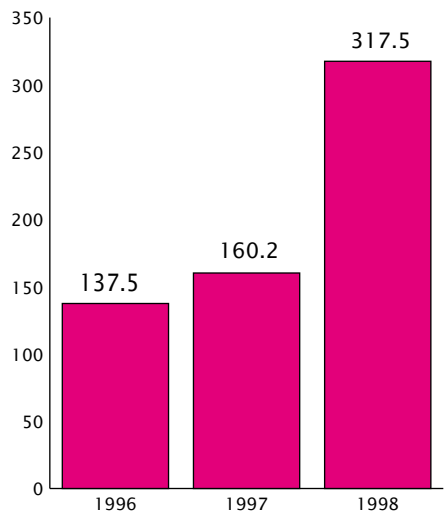
The BOC is best known and receives national attention for conducting the

decennial census. However, we also conduct censuses related to economic entities and to state and local governments twice each decade and numerous demographic and economic surveys on a monthly, quarterly, and annual basis. To maintain our skills and structure to conduct censuses and surveys and related statistical work, the BOC must maintain a highly skilled workforce and state of the art computer resources to provide a superior level of service to our customers, other Federal government agencies, and the U.S. population.

The fund balance includes both available and restricted amounts. Restricted amounts received in the S&E appropriation include funds no longer available for obligation. These funds are available only for subsequent adjustment to existing obligations. We return them to Treasury after expiration. The BOC's fund balance with Treasury was 198% higher as a result of increased activities related to Census 2000. Our efforts to position ourselves for the decennial census increased spending for equipment and computer support in advance of the increase in staffing levels.

Fund Balance with Treasury

In millions of dollars



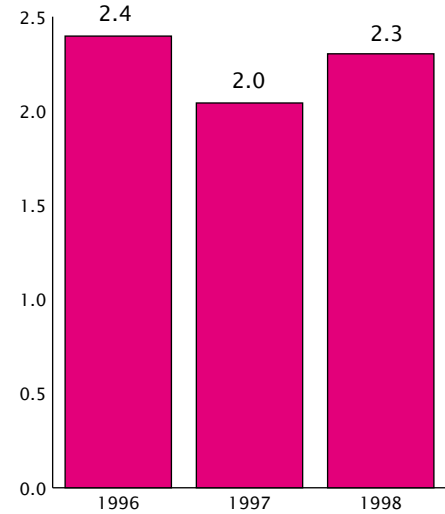
The BOC's inventories consist of (1) inventory produced and held for future sale/distribution and (2) inventory consumed in normal operations. We record the value of CD-ROM inventory held for sale at either the lower of cost or, if not sold after a reasonable period, reduced to net realizable value to stimulate demand. Inventory held for sale decreased due to increased inventory management and an earlier recognition of obsolete items.

We believe we will sell all items held and that they are properly valued. The BOC intends to maintain inventory levels sufficient to meet only current demand.

Inventories, Net

(Including operating materials and supplies)

In millions of dollars



Efforts since FY 1994 have improved (1) physical accountability of fixed assets and (2) information recorded for assets owned and in service at the BOC.

Given our vast efforts at data collection and statistical analysis, the BOC must acquire and maintain complex and elaborate computer equipment and networks. Asset purchases in 1998 include the planned replacement of obsolete equipment necessary to support the 2000 decennial census. We continue to adopt advances in technology to improve survey processes. Over the last two years, the BOC has converted more than ten surveys to the Computer-

Assisted Personal Interview environment and thirty surveys to the Computer-Assisted Telephone Interview environment.

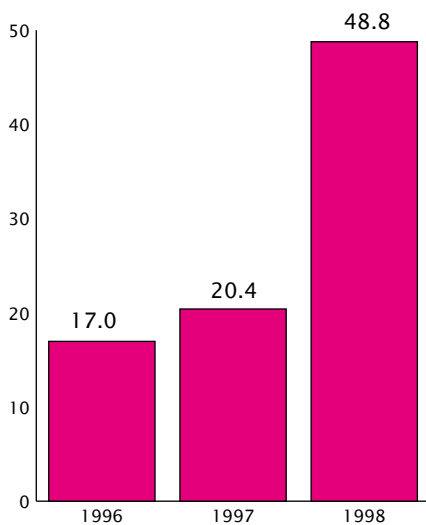
Accounts Payable represents balances we owe to governmental and non-governmental entities as of fiscal year end. We continue to record all known liabilities not liquidated prior to year end. Additional notification has been sent to BOC personnel to identify and provide support for goods and services delivered to the BOC. As of fiscal year end 1998, the BOC owes \$7.3 million to other Federal government agencies and \$41.5 million to non-governmental entities.

The BOC conducts work for other Federal government agencies, state and local governments, groups and organizations, and specific individuals on a reimbursable basis. The BOC requires other federal government entities, which account for more than 95% of outside work, to provide the funds required to conduct the work in advance. Consequently, the BOC maintains a significant amount of advances throughout the operating cycle.

The work for other Federal agencies includes collection of labor force data, and consumer expenditures, national education and health program data, information on crime and annual housing data.

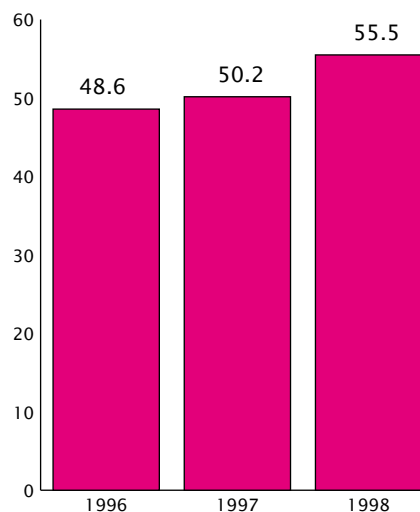
Accounts Payable

In millions of dollars



Unearned Revenue— Intragovernmental Advances

In millions of dollars

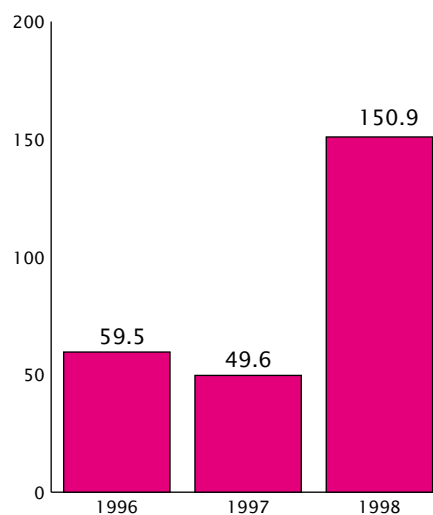


Unfunded Liabilities includes two components. Annual Leave and Compensatory Time Earned represents the balance of annual leave and compensatory time earned, but not taken, as of fiscal year end. Workers' compensation liability represents both money due to the Department of Labor (DOL) for payments provided to BOC employees through the current fiscal year end and an estimate of the future liability due for current claims beyond the current fiscal year. The DOL calculates the actuarial liability for the future liability due for current claims beyond the current fiscal year. The DOL uses historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period.

Appropriated Capital includes unexpended amounts received via Congressional appropriations to support the BOC's mission. Appropriations we receive are either one year funds or no year funds. We can retain no year funds beyond the current fiscal year until expended. One year funds, to the extent not obligated, expire and we eventually return those funds to the Treasury. Appropriated capital increased 304% from last year due to the increased obligations in support of the upcoming decennial activities.

Appropriated Capital

In millions of dollars



Revenues and financing sources increased significantly in 1998. The BOC will continue to experience large increases in funding through Year 2001 to support the decennial census activities. At the same time, we will support and service existing customers to ensure our relationships after the decennial census. The FY 1998 funding reflects an imputed financing cost of \$30,732,000 for post-retirement employee benefits funded by the Office of Personnel Management. Post retirement benefits include retirement benefits, Federal employee health benefits, and life insurance benefits paid out to retired Federal government employees.

Financial Performance Information

Financial Performance Attributes

The Financial Statement Package presented by the BOC contains information regarding the BOC's appropriations for 1998.

In thousands of dollars

Financial Obligations	1998
Current Assets	\$324,086
Current Liabilities	\$143,775
Ratio of Current Assets to Current Liabilities	2.3:1

In thousands of dollars

Financial Condition	1998
ASSETS	
Total Financial Resources	\$324,086
Total Non-Financial Resources	32,629
Total Assets	<u>\$356,715</u>
LIABILITIES	
Public	\$135,932
Federal	72,693
Total Liabilities	<u>\$208,625</u>
EQUITY	\$148,090

Financial Performance Measures

The BOC has established several financial performance measures to monitor performance of the financial system. These measures allow us to monitor selected activities to obtain quantified results we can compare with established goals or standards. Comparisons with the BOC's goals and government-wide performance standards provide indicators that define performance that is on time, accurate, and effective, or performance that requires improvement.

Prompt Payment Report:

The number of penalties paid represents 6.9% of total invoices paid in FY 1998 versus 8.5% in FY 1997. The financial effects of the preparation for the Census 2000 and the implementation of Phase II of CAMS reflect significant impacts to payment operations at the BOC. The cyclical increase in number of payments processed, the need to acquire and train new (and existing) staff, training BOC personnel to adapt to new business practices, and the lack of a fully automated accounts payable costing and disbursements system contributed to the increase in penalties paid. The BOC is in the process of implementing

Actual Obligations

Measure	Target Performance	Census Performance
Percent of vendor payments made on time	95%	90%
Percent of payroll by Direct Deposit	90%	93%
Percent of Timely Traveler Reimbursement	90%	93%
On Time Postings of Inter-Agency	30 days	21 days
On Time Reports to Central Agencies	95%	100%

PAYMENTS:**Invoices Paid Subject to the Prompt Payment Act**

Fiscal Year	Number	Amount (mil)	Penalties	
			Number	Amount
1998	16,304	\$192.1	1128	\$77,863
1997	9,807	\$81.0	835	\$43,272
1996	2,381	\$31.7	189	\$15,573

Phase II of CAMS which includes an automated Accounts Payable sub-system to automate and streamline the payment process.

Travel Reimbursements:

On a continuing basis, with few exceptions, over 90% of the BOC's travelers were reimbursed within 10 work days or less. This performance goal was accomplished with innovative manual interventions and overtime to meet the increasing workload for FY 1998. For example, total

number of travel vouchers processed in FY 1998 was 11,144 versus 4,347 processed in FY 1997. To meet the significant increase in travel activity for the Census 2000, the BOC is implementing a re-engineered travel process using the Travel Management Information System Plus (TMIS+). This new system is designed to minimize the manual financial processes and meet a targeted goal of reimbursing travelers within 5 work days or less.

Efficiency in Managing Assets

In 1998, the BOC issued 199 On-Line Payment and Collection invoices totaling more than \$172.1 million to government agencies. We request advance funds approximately 99 percent of the time for work done for the public. When advance funding is not practical, we establish a Temporary Work Authority until completion of the Reimbursable Work Agreement. Phase One of the Debt Collection Act of 1996 took effect in July 1996. The Act requires Federal agencies to convert from check payment to electronic funds transfer (EFT) in two phases. Phase I required new recipients of Federal payments to receive their payments electronically unless they do not have an account at a financial institution or an authorized payment agent. Phase II of the Act will take effect January 1, 1999. It requires all Federal agencies to make payments electronically.

We will convert all payments to EFT by the required dates. Our plan includes specific actions for converting salary payments, wage withholdings, vendor payments, and miscellaneous payments to EFT.

Limitations of the Financial Statements

The financial statements have been prepared to report the financial position and results of operations of the BOC, pursuant to the requirements of 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of the BOC in accordance with the formats prescribed by the Office of Management and Budget, the statements are, in addition to the financial reports, used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Financial Statements and Footnotes

DEPARTMENT OF COMMERCE
BUREAU OF THE CENSUS

Consolidated Balance Sheet as of September 30, 1998

(In thousands of dollars)

	As of September 30, 1998
ASSETS	
Entity assets:	
Intragovernmental assets:	
Fund balances with treasury (note 2)	\$316,636
Accounts receivable, net (note 3)	2,247
Total intragovernmental assets	\$318,883
Accounts receivable, net (note 3)	728
Prepayments	2,072
Inventories, net (note 4)	1,542
Operating materials and supplies, net (note 4)	761
Property and equipment, net (note 5)	31,759
Other assets	100
Total entity assets	\$355,845
Non-entity assets:	
Intragovernmental assets:	
Fund balance with treasury (note 2)	870
TOTAL ASSETS	\$356,715
LIABILITIES	
Liabilities covered by budgetary resources:	
Intragovernmental liabilities:	
Accounts payable	\$7,260
Deferred revenue (note 8)	55,487
Other intragovernmental liabilities (note 6)	5,835
Total intragovernmental liabilities	\$68,582
Accounts payable	41,511
Lease liabilities (note 11)	126
Accrued payroll and benefits (note 7)	26,081
Deferred revenue	6,048
Other liabilities (note 6)	1,427
Total liabilities covered by budgetary resources	\$143,775
Liabilities not covered by budgetary resources:	
Intragovernmental liabilities:	
Other intragovernmental liabilities (note 6)	4,111
Federal employees and veterans benefits (note 10)	33,829
Unfunded accrued leave	25,841
Other liabilities (note 6)	1,069
Total liabilities not covered by budgetary resources	\$64,850
TOTAL LIABILITIES	\$208,625
NET POSITION	
Fund balances:	
Unexpended appropriations (note 13)	\$150,932
Cumulative results of operations	(2,842)
Total net position	\$148,090
TOTAL LIABILITIES AND NET POSITION	\$356,715

The accompanying notes are an integral part of these statements.

DEPARTMENT OF COMMERCE
BUREAU OF THE CENSUS**Consolidating Statement of Net Cost (Unaudited)
for the Year ended September 30, 1998**

(In thousands of dollars)

	Responsibility segments								Total
	Field opera- tions	Economic programs	Demo- graphic programs	Decennial	Stan- dards & Methodol- ogy	All others	Com- bined total	Intra- agency elimina- tions	
Programs:									
Current survey & statistics									
1. Costs									
A. Intragovernmental									
1. Production	\$4,455	\$9,327	\$2,789	\$2	\$153	\$575	\$17,301	\$0	\$17,301
2. Nonproduction	0	0	0	0	0	0	0	0	0
B. Public									
1. Production	29,758	56,308	18,684	7	897	7,836	113,490	0	113,490
2. Nonproduction	0	0	0	0	0	0	0	0	0
C. Total program costs	\$34,213	\$65,635	\$21,473	\$9	\$1,050	\$8,411	\$130,791	\$0	\$130,791
D. Less earned revenues	(1)	0	0	0	0	1	0	0	0
E. Net program costs	\$34,212	\$65,635	\$21,473	\$9	\$1,050	\$8,412	\$130,791	\$0	\$130,791
Reimbursable									
1. Costs									
A. Intragovernmental									
1. Production	\$8,534	\$2,470	\$3,917	\$109	\$64	\$287	\$15,381	(\$43)	\$15,338
2. Nonproduction	0	0	0	0	0	0	0	0	0
B. Public									
1. Production	95,319	21,506	35,443	614	420	3,311	156,613	0	156,613
2. Nonproduction	0	0	0	0	0	0	0	0	0
C. Total program costs	\$103,853	\$23,976	\$39,360	\$723	\$484	\$3,598	\$171,994	(\$43)	\$171,951
D. Less earned revenues	(103,831)	(24,055)	(39,308)	(723)	(484)	(3,239)	(171,640)	43	(171,597)
E. Net program costs	\$22	(\$79)	\$52	\$0	\$0	\$359	\$354	\$0	\$354
Economic statistics program									
1. Costs									
A. Intragovernmental									
1. Production	\$3,162	\$5,828	\$7	\$72	\$115	(\$2)	\$9,182	\$0	\$9,182
2. Nonproduction	0	0	0	0	0	0	0	0	0
B. Public									
1. Production	16,630	34,960	39	343	617	1,810	54,399	0	54,399
2. Nonproduction	0	0	0	0	0	0	0	0	0
C. Total program costs	\$19,792	\$40,788	\$46	\$415	\$732	\$1,808	\$63,581	\$0	63,581
D. Less earned revenues	0	0	0	0	0	0	0	0	0
E. Net program costs	\$19,792	\$40,788	\$46	\$415	\$732	\$1,808	\$63,581	\$0	\$63,581
Demographic statistics program									
1. Costs									
A. Intragovernmental									
1. Production	\$34,021	\$52	\$1,828	\$8,020	\$1,130	\$1,402	\$46,453	\$0	\$46,453
2. Nonproduction	0	0	0	0	0	0	0	0	0
B. Public									
1. Production	106,060	102	9,100	88,548	5,478	31,259	240,547	0	240,547
2. Nonproduction	0	0	0	0	0	0	0	0	0
C. Total program costs	\$140,081	\$154	\$10,928	\$96,568	\$6,608	\$32,661	\$287,000	\$0	\$287,000
D. Less earned revenues	(1)	0	(3)	0	0	3	(1)	0	(1)
E. Net program costs	\$140,080	\$154	\$10,925	\$96,568	\$6,608	\$32,664	\$286,999	\$0	\$286,999

FINANCIAL STATEMENTS AND FOOTNOTES

DEPARTMENT OF COMMERCE
BUREAU OF THE CENSUS**Consolidating Statement of Net Cost (Unaudited)
for the Year ended September 30, 1998**

(In thousands of dollars)

	Responsibility segments								Total
	Field opera- tions	Economic programs	Demo- graphic programs	Decennial	Stan- dards & Methodol- ogy	All others	Com- bined total	Intra- agency elimina- tions	
Continuous measurement									
1. Costs									
A. Intragovernmental									
1. Production	\$656	\$0	\$1,477	\$45	\$18	\$36	\$2,232	\$0	\$2,232
2. Nonproduction	0	0	0	0	0	0	0	0	0
B. Public									
1. Production	3,942	0	8,864	244	115	698	13,863	0	13,863
2. Nonproduction	0	0	0	0	0	0	0	0	0
C. Total program costs	\$4,598	\$0	\$10,341	\$289	\$133	\$734	\$16,095	\$0	\$16,095
D. Less earned revenues	0	0	0	0	0	0	0	0	0
E. Net program costs	\$4,598	\$0	\$10,341	\$289	\$133	\$734	\$16,095	\$0	\$16,095
Sample redesign									
1. Costs									
A. Intragovernmental									
1. Production	\$0	\$0	\$168	\$0	\$0	\$0	\$168	\$0	\$168
2. Nonproduction	0	0	0	0	0	0	0	0	0
B. Public									
1. Production	0	0	2,359	0	0	126	2,485	0	2,485
2. Nonproduction	0	0	0	0	0	0	0	0	0
C. Total program costs	\$0	\$0	\$2,527	\$0	\$0	\$126	\$2,653	\$0	\$2,653
D. Less earned revenues	0	0	0	0	0	0	0	0	0
E. Net program costs	\$0	\$0	\$2,527	\$0	\$0	\$126	\$2,653	\$0	\$2,653
Electronic information collection									
1. Costs									
A. Intragovernmental									
1. Production	\$239	\$0	\$0	\$0	\$611	\$12	\$862	\$0	\$862
2. Nonproduction	0	0	0	0	0	0	0	0	0
B. Public									
1. Production	1,257	250	0	0	2,601	399	4,507	0	4,507
2. Nonproduction	0	0	0	0	0	0	0	0	0
C. Total program costs	\$1,496	\$250	\$0	\$0	\$3,212	\$411	\$5,369	\$0	\$5,369
D. Less earned revenues	0	0	0	0	0	0	0	0	0
E. Net program costs	\$1,496	\$250	\$0	\$0	\$3,212	\$411	\$5,369	\$0	\$5,369
Geographic Support									
1. Costs									
A. Intragovernmental									
1. Production	\$1,782	\$0	\$0	\$1,333	\$0	\$0	\$3,115	\$0	\$3,115
2. Nonproduction	0	0	0	0	0	0	0	0	0
B. Public									
1. Production	11,737	0	0	20,452	0	1,991	34,180	0	34,180
2. Nonproduction	0	0	0	0	0	0	0	0	0
C. Total program costs	\$13,519	\$0	\$0	\$21,785	\$0	\$1,991	\$37,295	\$0	\$37,295
D. Less earned revenues	0	0	0	0	0	0	0	0	0
E. Net program costs	\$13,519	\$0	\$0	\$21,785	\$0	\$1,991	\$37,295	\$0	\$37,295
Data processing systems									
1. Costs									
A. Intragovernmental									
1. Production	\$0	\$0	\$0	\$0	\$0	\$1	\$1	\$0	\$1
2. Nonproduction	0	0	0	0	0	0	0	0	0
B. Public									
1. Production	78	0	0	0	0	17,509	17,587	0	17,587
2. Nonproduction	0	0	0	0	0	0	0	0	0
C. Total program costs	\$78	\$0	\$0	\$0	\$0	\$17,510	\$17,588	\$0	\$17,588
D. Less earned revenues	0	0	0	0	0	0	0	0	0
E. Net program costs	\$78	\$0	\$0	\$0	\$0	\$17,510	\$17,588	\$0	\$17,588

FINANCIAL STATEMENTS AND FOOTNOTES

DEPARTMENT OF COMMERCE
BUREAU OF THE CENSUS**Consolidating Statement of Net Cost (Unaudited)
for the Year ended September 30, 1998**

(In thousands of dollars)

	Responsibility segments								
	Field opera- tions	Economic programs	Demo- graphic programs	Decennial	Stan- dards & Methodol- ogy	All others	Com- bined total	Intra- agency elimina- tions	Total
Working capital fund									
1. Costs									
A. Intragovernmental									
1. Production	\$24,798	\$8,256	\$5,440	\$4,149	\$1,912	\$72,090	\$116,645	(\$112,200)	\$4,445
2. Nonproduction	0	0	0	0	0	0	0	0	0
B. Public									
1. Production	68,344	25,322	18,250	13,045	6,246	126,553	257,760	(249,736)	8,024
2. Nonproduction	0	0	0	0	0	0	0	0	0
C. Total program costs	\$93,142	\$33,578	\$23,690	\$17,194	\$8,158	\$198,643	\$374,405	(\$361,936)	\$12,469
D. Less earned revenues	(6)	(77)	(116)	0	(2)	(370,831)	(371,032)	361,936	(9,096)
E. Net program costs	\$93,136	\$33,501	\$23,574	\$17,194	\$8,156	(\$172,188)	\$3,373	\$0	\$3,373
Cost Collection									
1. Costs									
A. Intragovernmental									
1. Production	\$8,731	\$102	\$1,682	\$35	\$68	\$1	\$10,619	(\$11,204)	(\$585)
2. Nonproduction	0	0	0	0	0	0	0	0	0
B. Public									
1. Production	42,741	1,112	12,198	143	86	109	56,389	(59,464)	(3,075)
2. Nonproduction	0	0	0	0	0	0	0	0	0
C. Total program costs	\$51,472	\$1,214	\$13,880	\$178	\$154	\$110	\$67,008	(\$70,668)	(\$3,660)
D. Less earned revenues	1	0	0	0	0	(70,668)	(70,667)	70,668	1
E. Net program costs	\$51,473	\$1,214	\$13,880	\$178	\$154	(\$70,558)	(\$3,659)	\$0	(\$3,659)
Survey of Program Dynamics									
1. Costs									
A. Intragovernmental									
1. Production	\$1,868	\$0	\$310	\$0	\$28	\$0	\$2,206	\$0	\$2,206
2. Nonproduction	0	0	0	0	0	0	0	0	0
B. Public									
1. Production	3,785	0	2,766	0	218	0	6,769	0	6,769
2. Nonproduction	0	0	0	0	0	0	0	0	0
C. Total program costs	\$5,653	\$0	\$3,076	\$0	\$246	\$0	\$8,975	\$0	\$8,975
D. Less earned revenues	0	0	0	0	0	0	0	0	0
E. Net program costs	\$5,653	\$0	\$3,076	\$0	\$246	\$0	\$8,975	\$0	\$8,975
Default									
1. Costs									
A. Intragovernmental									
1. Production	\$0	\$0	\$0	\$0	\$0	\$20,563	\$20,563	\$0	\$20,563
2. Nonproduction	0	0	0	0	0	0	0	0	0
B. Public									
1. Production	0	0	0	0	0	13,461	13,461	0	13,461
2. Nonproduction	0	0	0	0	0	0	0	0	0
C. Total program costs	\$0	\$0	\$0	\$0	\$0	\$34,024	\$34,024	\$0	\$34,024
D. Less earned revenues	0	0	0	0	0	(1)	(1)	0	(1)
E. Net program costs	\$0	\$0	\$0	\$0	\$0	\$34,023	\$34,023	\$0	\$34,023
2. Costs not assigned to programs	0	0	0	0	0	0	0	0	0
3. Less earned revenues not assigned to program	0	0	0	0	0	0	0	0	0
4. Deferred Maintenance	0	0	0	0	0	0	0	0	0
5. Net cost of operations	\$364,059	\$141,463	\$85,894	\$136,438	\$20,291	(\$144,708)	\$603,437	\$0	\$603,437

FINANCIAL STATEMENTS AND FOOTNOTES

DEPARTMENT OF COMMERCE BUREAU OF THE CENSUS

Consolidating Statement of Changes in Net Position (Unaudited) for the Year Ended September 30, 1998

(In thousands of dollars)

	Field operations	Economic programs	Demo- graphic programs	Decennial	Standards and methodol- ogy	All others	Total
Net cost of operations	(\$364,059)	(\$141,463)	(\$85,894)	(\$136,438)	(\$20,291)	\$144,708	(\$603,437)
Financing sources							
Appropriations used	219,545	107,452	48,930	129,120	12,522	78,565	596,134
Taxes (and other non-exchange revenues)	0	0	0	0	0	(28)	(28)
Donations (non-exchange revenue)	0	0	0	0	0	0	0
Imputed financing	0	0	0	0	0	30,732	30,732
Transfers-in	0	0	0	(199)	0	199	0
Transfers-out	(72)	(546)	(131)	(2,144)	0	2,893	0
Net results of operations	(\$144,586)	(\$34,557)	(\$37,095)	(\$9,661)	(\$7,769)	\$257,069	\$23,401
Prior period adjustments	0	0	0	0	0	0	0
Net Change in Cumulative results of operations	(\$144,586)	(\$34,557)	(\$37,095)	(\$9,661)	(\$7,769)	\$257,069	\$23,401
Increase (decrease) in unexpended appropriations	132	1,763	233	72,177	5,059	22,024	101,388
Change in net position	(\$144,454)	(\$32,794)	(\$36,862)	\$62,516	(\$2,710)	\$279,093	\$124,789
Net position - beginning of period							23,301
Net position - end of period							\$148,090

The accompanying notes are in integral part of these statements.

Note: The Census Bureau did not have any Intra-Agency Elimination entries for the Consolidating Statement of Changes in Net Position. Expenses and revenue were eliminated on the Statement of Net Cost.

DEPARTMENT OF COMMERCE
BUREAU OF THE CENSUS**Consolidating Statement of Budgetary Resources (Unaudited)
for the Year Ended September 30, 1998**

(In thousands of dollars)

	Salaries & expenses 13-0401	Periodic censuses & programs 13x0450	Working capital fund 13x4512	Intra- agency eliminations	Total
Budgetary resources:					
Budget authority	\$147,278	\$551,813	\$0	\$0	\$699,091
Unobligated balances - beginning of period	10,234	1,176	(796)	0	10,614
Net transfers prior-year balance, actual					
Spending authority from offsetting collections	0	0	614,064	(432,604)	181,460
Adjustments	1,453	3,190	585	0	5,228
Total budgetary resources	\$158,965	\$556,179	\$613,853	(\$432,604)	\$896,393
Status of budgetary resources:					
Obligations incurred	\$145,898	\$545,975	\$604,964	(\$432,604)	\$864,233
Unobligated balances - available	618	10,204	8,889	0	19,711
Unobligated balances - not available	12,449	0	0	0	12,449
Total, status of budgetary resources	\$158,965	\$556,179	\$613,853	(\$432,604)	\$896,393
Outlays:					
Obligations incurred	\$145,898	\$545,975	\$604,964	(\$432,604)	\$864,233
Less: Spending authority from offsetting collections and adjustments	(1,453)	(3,190)	(614,649)	(432,604)	(186,688)
Obligated balance, net - beginning of period	9,955	47,464	35,047	0	92,466
Obligated balance transferred, net					
Less: obligated balance, net - end of period	(10,762)	(164,862)	(47,997)	0	(223,621)
Total outlays	\$143,638	\$425,387	(\$22,635)	\$0	\$546,390

The accompanying notes are an integral part of these statements.

FINANCIAL STATEMENTS AND FOOTNOTES

DEPARTMENT OF COMMERCE
BUREAU OF THE CENSUS

**Consolidating Statement of Financing (Unaudited)
for the Year Ended September 30, 1998**

(In thousands of dollars)

	Salaries and expenses 13-0401	Periodic censuses & programs 13x0450	Working capital fund 13x4512	Intra- agency eliminations	Total
Obligations and nonbudgetary resources:					
Obligations incurred	\$145,898	\$545,975	\$604,964	(\$432,604)	\$864,233
Less: Spending authority from offsetting					
Collections and adjustments	(1,453)	(3,190)	(614,649)	432,604	(186,688)
Donations not in the entity's budget					
Imputed financing			30,732		30,732
Transfers-in(out)					0
Exchange revenue not in the entity's budget					0
Other					
Total obligations as adjusted and nonbudgetary resources	\$144,445	\$542,785	\$21,047	\$0	\$708,277
Resources that do not fund net cost of operations					
Change in amount of goods, services, and benefits ordered but not yet provided	(\$3,010)	(\$88,085)	(\$208)		(\$91,303)
Changes in unfilled customer orders			672		672
Costs capitalized on the balance sheet (increased)	(305)	(15,859)	(1,480)		(17,644)
Financing sources that fund costs of prior periods		(795)	(26,365)		(27,160)
Other		41	(20)		21
Prior period adjustments					0
Total Resources that do not fund net cost of operations	(\$3,315)	(\$104,698)	(\$27,401)	\$0	(\$135,414)
Resources used to Finance the Net Cost of Operations	\$141,130	\$438,087	(\$6,354)	\$0	\$572,863
Costs That Do Not Require Resources					
Depreciation and amortization	\$0	(\$18)	\$8,913		\$8,895
Bad debts related to uncollectable non-credit reform receivables			54		54
Revaluation of assets and liabilities					
Gain (Loss) on disposition of assets		(236)	114		(122)
Other			101		101
Total costs that do not require resources	\$0	(\$254)	\$9,182	\$0	\$8,928
Financing sources yet to be provided	\$0	\$0	\$21,646	\$0	\$21,646
Net costs of operations	\$141,130	\$437,833	\$24,474	\$0	\$603,437

The accompanying notes are an integral part of these statements.

Financial Footnotes

Note 1. Summary of Significant Accounting Policies:

Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the BOC, DOC, as required by the Chief Financial Officers Act of 1990. They have been prepared from the books and records of the BOC in accordance with the form and content for the entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 97-01, and the BOC's accounting policies which are summarized in this note. These statements are therefore different from the financial reports, also prepared by the BOC pursuant to OMB directives, that are used to monitor and control the BOC's use of budgetary resources.

In 1990, the General Accounting Office (GAO), the Department of the Treasury, and the OMB jointly established the Financial Accounting Standards Advisory Board (FASAB) to consider and recommend accounting standards and principles for the Federal Government. The following hierarchy constitutes generally accepted

accounting principles for the Federal Government:

- Individual standards agreed to by the Director of OMB, the Controller General, and the Secretary of the Treasury and published by OMB and the General Accounting Office.
- Interpretations related to the SFFASs issued by OMB in accordance with the procedures outlined in OMB Circular A-134, "Financial Accounting Principles and Standards."
- Requirements contained in OMB's Form and Content Bulletin in effect for the period covered by the financial statements.
- Accounting principles published by authoritative standard setting bodies and other authoritative sources (1) in the absence of other guidance in the first three parts of this hierarchy and (2) if the use of such accounting principles improves the meaningfulness of the financial statements.

Each statement shall reflect the overall financial position of the BOC and activities covered by the statement, including assets and liabilities thereof; and results of operations of the BOC.

Reporting Entity

The BOC is an agency of the U.S. Department of Commerce that is mandated

by law to provide enumerations on a decennial basis for the population as well as provide other statistical data on a periodic basis for manufacturing, health, income, etc. The BOC also provides services to other government and non-government entities on a reimbursable basis. The BOC is funded by two appropriations:

- 0401 Salaries and Expenses. We also receive an additional \$10 million separately appropriated by the Responsibility and Work Opportunity Reconciliation Act of 1996 (Welfare Reform).

- 0450 Periodic Censuses and Programs

The accompanying financial statements of the BOC include the accounts of all funds under BOC control.

Budgets and Budgetary Accounting

Congress annually adopts a 1-year appropriation, available for obligation in the fiscal year for which it is provided, to cover salary and expense costs. Congress also annually adopts a 1-year appropriation, available for obligation with no year limit, to cover Periodic Census and Program costs.

Basis of Accounting

Transactions are recorded on an accrual accounting basis and on a budget-

ary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to the date of receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

Funds with the U.S. Treasury and Cash

The BOC does not, for the most part, maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. Funds with the U.S. Treasury consists of appropriated and deposit funds that are available to pay current liabilities and finance authorized purchase commitments.

Inventories

The BOC's inventories are comprised of materials held for sale. The inventories on hand are stated at the lower of cost or net realizable value. Expenses are recorded when the inventories are sold.

Property and Equipment

The land and buildings in which the BOC operates are provided by the General Services Administration (GSA), which charges the BOC rent that approximates the commercial rental rates for similar proper-

ties. The BOC also rents commercial buildings under the GSA Delegation of Authority which authorizes the BOC to directly rent commercial space from property owners.

Equipment acquired after October 1, 1996 is capitalized at cost if the initial acquisition cost is \$25,000 or more and its useful life is over 2 years. Assets purchased prior to that for \$5,000 or more continue to be depreciated over their estimated useful life.

Liabilities

Liabilities represent the amount of money or other resources that are scheduled to be paid by the BOC as the result of a transaction or event that has already occurred. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities. No liability can be paid by the BOC absent an appropriation.

Revenues and Other Financing Sources

The BOC receives both annual and no year appropriations that may be used, within statutory limits, for operating and capital expenditures (primarily equipment and ADP software). Additional amounts are obtained through reimbursements for services performed for other government and nongovernment entities.

Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for equipment are recognized as expenses when the asset is placed in operation. Other revenues are recognized when earned (i.e., goods have been delivered or services provided).

Annual, Sick, and Other Leave

Annual leave is accrued as earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual and compensatory leave account is adjusted to reflect current leave balances and pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

Workers' Compensation Liability

Workers' Compensation includes two components: (1) the accrued liability which represents money owed for claims paid through the current fiscal year, and (2) the actuarial liability which represents the expected liability for approved compensation cases beyond the current fiscal year.

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for BOC employees under FECA are administered by the Department of Labor and are ultimately paid by the BOC.

Future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined utilizing historical benefit payment patterns related to a specific period to estimate the ultimate payments related to that period.

[Employee Retirement Plans](#)

Employees hired after December 31, 1983, are automatically covered by the Federal Employees' Retirement System (FERS), implemented on January 1, 1987,

while employees hired prior to that date may elect to join either FERS or to remain in the Civil Service Retirement System (CSRS). For employees in FERS, the BOC withholds .80% of gross earnings in addition to Social Security (FICA), and matches the withholding with an 11.4% contribution. The sum is transferred to the Federal Employees' Retirement Fund. For employees covered by the CSRS, the BOC withholds 7% of gross earnings. This withholding is matched by the BOC and the sum of the withholding and the matching funds is transferred to the Civil Service Retirement System.

On April 1, 1987, the Federal Government initiated the Thrift Saving Plan (TSP), which is a retirement savings and investment plan for employees covered by either FERS or CSRS. FERS participants may contribute up to 10% of their gross pay to the plan. The BOC matches up to 50% of the employee's contributions. CSRS participants may contribute up to 5% of their gross pay, but there is no governmental matching contribution. The maximum amount that either FERS or CSRS employees may contribute to the plan in calendar year in calendar year 1998 was \$10,000. The sum of employee and BOC contributions is

transferred to the Federal Retirement Thrift Investment Board to administer.

BOC total contributions to employee benefit plans during FY 1998 were as follows:

Plan	Unaudited 1998
Federal Employees' Retirement System	\$16,967,234
Civil Service Retirement Fund	12,101,029
Social Security (FICA)	13,735,960
Thrift Savings Plan	5,377,955
Total Contributions	<u>\$48,182,178</u>

Pension and Other Retirement Benefits

Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities of the Federal Government, and OMB Bulletin 97-01, Form and Content of Agency Financial Statements, require Federal entities to recognize an expense for pension and other retirement benefits at the time the employee's services are rendered.

To calculate the liability for pensions and other retirement benefit costs, the "service cost" or normal cost is calculated. Service cost is defined as the actuarial present value of benefits attributed by the pension plan's benefit formula to services rendered by employees during the accounting period. The amount of the service cost, less any employee contributions attributable to post-retirement benefits, is defined as the "pension expense" for the entity. To calculate the amount of additional expense to be recorded, the employer's contribution is subtracted from the pension expense since the employer's contribution is expended with each pay period. Since the benefit for pensions is received after retirement, employee and employer contributions are attributed to the period after retirement and are subtracted from the service costs. The employee and employer contributions for health care and life insurance are attributed to the current period, and therefore, there is no offset to these service costs to calculate the other retirement benefit expense for the entity. These additional expenses represent the "subsidy" being made by the Office of

Personnel Management (OPM) for employees retirement benefits.

Contingencies

The BOC is a party in various administrative proceedings, legal actions, and claims brought by, or against, the BOC, including Equal Employment Opportunity (EEO) cases. It is the opinion of the management and the legal counsel, that the ultimate resolution of the proceedings, actions and claims, will not materially affect the financial position or results of operations of the BOC.

Comparative Data

Since FY 1997 was the first full year of implementation of SFFAS 4 (Managerial Cost Accounting Concepts and Standards) and 5 (Accounting for Liabilities of the Federal Government) and FY 1998 is the first full year of implementation of SFFAS Numbers 6 (Accounting for Property, Plant, and Equipment), 7 (Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting), and 8 (Supplementary Stewardship Reporting), comparative information is not presented for FY 1998 data.

Use of Estimates

The preparation of financial statements in accordance with the accounting principles described above requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Actual results could differ from those estimates.

Note 2. Fund Balances with Treasury:

The BOC cash receipts and disbursements are processed by the U.S. Treasury. Non-Federal receipts are deposited daily in commercial banks, which transfer the receipts to the U.S. Treasury. Federal checks are mailed directly to the Federal Reserve Bank. Funds with the U.S. Treasury represent appropriated and reimbursable funds available to finance expenditures. Included in the Fund Balance with Treasury are deposit and suspense funds that are not available to finance BOC activities. The 1993 Fund Balance with Treasury for Salaries and Expenses was canceled as of September 30, 1998 as required by the OMB year end closing procedures.

In thousands of dollars

Fund Balances	Entity	Non-Entity	Total 1998
Revolving Funds	\$58,208		\$58,208
Appropriated Funds	198,887		198,887
Commercial Activity	59,541		59,541
Deposit Funds		\$134	134
Deposit Funds—Suspense		736	736
Total Fund Balances	\$316,636	\$870	\$317,506

Note 3. Accounts Receivable:

The BOC receivables are comprised primarily of funds due from Federal government customers for funds advanced.

The BOC is required to obtain funds in advance for reimbursable work; when the cost of work performed is in excess of the advances received, a receivable is established until the funds are collected.

The amounts due for receivables are stated net of any allowance for uncollectible accounts. The estimate of the allowance is based on an analysis of the outstanding balances.

The BOC maintains an accounts receivable subsidiary ledger for amounts

due for goods and services provided to other Federal agencies, the public and foreign entities. In addition, the Department of Agriculture, National Finance Center (NFC), maintains an accounts receivable subsidiary ledger on behalf of BOC for salary overpayments, health benefits and other indebtedness of all current and noncurrent employees. The NFC receivables include both current receivables billed to the employee and in the process of repayment, and unbilled receivables that will not be billed until the employee returns to active status and salary offset is initiated.

In thousands of dollars

		Entity	1998
Accounts Receivable	Public	Intrgovernmental	Total Accounts
Receivables	\$821	\$2,247	\$3,068
Allowances End of Period	(93)		(93)
Accounts Receivable, Net	\$728	\$2,247	\$2,975

The BOC applies the following percentages, based on the number of days, to accounts receivable balances to the outstanding estimate allowance for uncollectible accounts:

61-90 Days	0%
91-180 Days	15%
181-360 Days	35%
Over 360 Days	100%

The Reimbursable Management System was deployed in FY 1998 as part of the Commerce Administrative Management System-Core Financial System project.

Note 4. Inventories and Related Property:

The BOC's inventory is comprised of data and information products held for

future sale to other Federal government agencies and to the public. The inventories on hand are stated at the lower of cost or net realizable value. Expenses are recorded when the inventories are sold and revenues are received from the customer. A reserve for obsolete items is based on items held in inventory that may not be sold and would be removed from inventory at a later date. The BOC intends to maintain inventory levels sufficient to meet only current demand.

The BOC defines operating materials and supplies (expendable property) as property that is consumed, loses its identity, or becomes an integral part of other property when put in use. Materials and supplies are valued at actual cost. Materials and supplies are updated monthly and physical counts completed (either

In thousands of dollars

	Inventory Amount	Excess and Obsolete Inventory Allowance	1998 Inventory Net
Inventories:			
CD ROM	\$1,820	\$278	\$1,542
Operating Materials and Supplies:			
Materials for own use	638		638
On-the-Spot Awards	69	69	
Postal meter balances	54		54
Total Inventories	\$2,581	\$278	\$2,303

annually or on a cyclical basis) to ensure the balance reflects actual materials and supplies on hand.

**Note 5. General Property,
Plant and Equipment:**

Effective October 1, 1996, the Office of Financial Management amended the DOC's accounting policy, raising the capitalization threshold from \$5,000 to \$25,000. The new policy requires all equipment and software purchased after FY 1996 for amounts \$25,000 and over with a useful life of at least two years to be recorded as

a capital asset and depreciated/amortized over its estimated economic useful life. Assets purchased prior to FY 1996, which were capitalized at the former \$5,000 threshold, are not affected by this change and will continue to be depreciated over the estimated number of years of their useful life. Assets purchased for less than the new capitalization threshold will be recorded as accountable property and inventoried along with capitalized items. Software developed internally is currently expensed as costs are incurred.

Depreciation rates are established on the basis of a reasonable estimate of the useful life of the assets to be depreciated using the straight-line method. In establishing useful lives for assets, due consideration is given to:

- Factors cited in feasibility studies and documents authorizing the acquisition of the ADP or other specialized equipment; and
- The BOC's actual prior experiences on the replacement of like assets.

Assets purchased in 1998 included the planned replacement of obsolete equipment necessary to support the 2000 decennial activities and automation of field data collection activities. The work of the field enumerators requires they collect and compile a significant amount of data; to the

extent their work can be automated, the more quickly and efficiently they can complete their assignments and ensure information provided by the BOC is accurate and timely. The ADP software service life was adjusted downward from five to three years effective October 1, 1997, prospectively. The service life for ADP software purchased before October 1, 1997, will remain at five years.

Note 6. Other Liabilities:

The BOC accrues monthly liabilities based on estimates of funds owed to other Federal government entities for services provided, but not yet billed.

The DOC, Office of the Secretary, Working Capital Fund (WCF) bills the BOC on a monthly basis for a portion of the DOC

In thousands of dollars

Classes of Fixed Assets	Depreciation Method	Service Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value 1998
Leasehold Improvements	SL	5-20	\$3,168	\$1,329	\$1,839
ADP Software	SL	3-5	2,883	1,371	1,512
Equipment	SL	5-6	82,791	54,522	28,269
Capital Leases	SL	5	146	7	139
Total			\$88,988	\$57,229	\$31,759

administrative costs. The accrual represents an estimate of the liability incurred, but unpaid for the year.

The accruals for Workers Compensation and Unemployment Compensation represent the estimated liability for the current fiscal year, for money owed, but not billed, for claims which were paid by the Department of Labor.

Non-Current liabilities represent claims paid by the Department of Labor from the Employees Compensation Fund for the period of July, 1 1996 through September 30, 1998.

The Limited Payability balance represents checks issued and not cashed after one year. Deposit Funds represents money withheld or collected from BOC employees for bonds, state taxes, health benefits payments, and other payments.

In thousands of dollars

Other Liabilities	Non-Current	Current	Total
Other Liabilities Covered by Budgetary Resources:			
Intra-governmental:			
Department of Commerce—WCF		\$2,358	\$2,358
Workers Compensation		1,860	1,860
Unemployment Compensation		269	269
GSA Basic Telecommunications		1,348	1,348
Total Intra-governmental		\$5,835	\$5,835
Limited Payability		\$485	\$485
Deposit Funds		942	942
Total Governmental		\$1,427	\$1,427
Other Liabilities Not Covered by Budgetary Resources:			
Intra-governmental:			
Workers Compensation	\$4,111		\$4,111
Installment Contract	\$1,069		\$1,069

Note 7. Accrued Payroll and Benefits:

Accrued liabilities represent payroll and benefit costs earned and owed to employees but unpaid as of year end. The BOC accrued 18 calendar days of payroll costs as of September 30, 1998 that were paid the following fiscal year.

In thousands of dollars	
Accrued Payroll and Benefits	1998
NFC	\$22,708
PAMS/ADAMS	3,373
Total Accrued Payroll and Benefits	\$26,081

Note 8. Deferred Revenues — Intra governmental:

Unearned revenue is summarized by agency in the following table.

In thousands of dollars	
Deferred Revenues— Intra-governmental	1998
Department of Labor	\$19,450
Department of Education	8,662
Department of Health and Human Services	5,939
Department of Justice	5,338
Housing and Urban Development	2,355
Department of Transportation	1,847
National Science Foundation	1,660
Department of Commerce	1,358
Agency for International Development	993
Agriculture Census	774
Department of Defense	558
Department of Agriculture	388
Department of Energy	28
Department of Veterans Affairs	16
Department of Treasury	11
Others	6,110
Total	\$55,487

Note 9. Statement of Net Cost (Unaudited):

Sub-Organization Program Costs:

The BOC obtained \$699,091,000 in appropriations for FY 1998, to conduct both Economic and Demographic programs, as well as the 2000 Decennial. In addition, the Bureau received \$172,359,996 spending authority to perform work on a reimbursable basis, primarily from other Federal agencies. As the BOC approaches the year 2000, a higher portion of funds will be obtained via appropriations to support the Census 2000 activities. The BOC conducted a dress rehearsal in three sites in the United States in 1998, and began staffing temporary offices throughout the United States and Puerto Rico to continue the task of updating address listings and local maps for the year 2000 activities.

SFFAS 5, Accounting for Liabilities of the Federal Government, and OMB Bulletin 97-01, Form and Content of Agency Financial Statements, require Federal entities to recognize an expense for pension and other retirement benefits at the time the employee's services are rendered, effective fiscal year 1997 and beyond. The costs reported include \$30,731,906 in costs through September 30th, for pension and other post retirement benefits.

Exchange Revenues:

Exchange revenues for FY 1998 represent revenues collected, primarily from other Federal agencies for work completed on a reimbursable basis. The majority of agreements are based on preliminary cost estimates and are adjusted to full cost upon completion of the agreement.

Note 10. Federal Employee and Veterans' Benefits:

Worker's Compensation:

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for BOC employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by the BOC.

Future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The liability for future workers' compensation

benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined utilizing historical benefit payment patterns related to a specific period to estimate the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's current economic assumptions for 10-year Treasury notes and bonds. Interest rates utilized for discounting in 1998 were 5.60% in year one and thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors that include cost of living adjustments and medical inflation factors are applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year constant dollars. The methodology also includes a discounting formula to recognize the timing of actual compensation payments as thirteen payments per year instead of one lump sum per year. The projected number of years of benefits payments is 37.

The model's resulting projections were analyzed to insure that the amounts were reliable. The analysis is based on three tests: 1) a comparison of the current year projections to the prior year projections; 2) a comparison of the prior year projected payments to the current year actual payments, excluding any new case payments that had arisen during the current year; and 3) a comparison of the current year actual payment data to the prior year actual payment data. Based on the outcome of this analysis, ad hoc adjustments were made to correct any anomalies in the projections. Based on information provided by the Department of Labor, the DOC determined that the liability estimates for future worker's compensation benefits for the BOC as of September 30, 1998 was \$33,829,325.

Pension and Other Retirement Benefits:

SFFAS 5 , Accounting for Liabilities of the Federal Government, and OMB Bulletin 97-01 , Form and Content of Agency Financial Statements, require Federal entities to recognize an expense for pension and other retirement benefits at the time the employee's services are rendered.

To calculate the liability for pensions and other retirement benefit costs, the “service cost” or normal cost is calculated. Service cost is defined as the actuarial present value of benefits attributed by the pension plan’s benefit formula to services rendered by employees during the accounting period. The amount of the service cost, less any employee contributions attributable to post-retirement benefits, is defined as the “pension expense” for the entity. To calculate the amount of additional expense to be recorded, the employer’s contribution is subtracted from the pension expense since the employer’s contribution is expended with each pay period. Since the benefit for pensions is received after retirement, employee and employer contributions are attributed to the period after retirement and are subtracted from the service costs. The employee and employer contributions for health care and life insurance are attributed to the current period, and therefore, there is no offset to these service costs to calculate the other retirement benefit expense for the entity. These additional expenses represent the “subsidy” being made by the Office of Personnel Management (OPM) for employees’ retirement benefits.

Note 11. Leases:

The BOC has commitments under leases for reproduction equipment (copiers). The lease contract period is 36 months. The amortization period for the capital leases is 60 months. The future payments due as of September 30, 1998 are as follows:

Capital Equipment Leases:

Summary of Assets Under Capital Equipment Leases:

(1) Capital Leases	\$135
(2) Accumulated Amortization ...	\$7

In thousands of dollars	
Capital Leases	1998
Fiscal Year:	
1999	\$53
2000 and thereafter	92
Total Future Lease Payments	\$145
Less: Imputed Interest Executory Costs	(19)
Total Future Capital Lease Liability	\$126

Operating Leases:

The BOC has commitments under cancelable leases for office space. The majority of buildings in which the BOC operates are leased by the General Services Administration (GSA), and the BOC is charged rent intended to approximate commercial rental rates. The BOC also has unique operating space needs for which commercial space is rented directly by the BOC. The rental expense for the fiscal year ended September 30, 1998 is as follows:

In thousands of dollars

Operating Leases	1998
------------------	------

Space Rentals:

Federal Space	\$22,658
Commercial Rentals	3,064
	<u>\$25,722</u>

Future Payment Due:

In thousands of dollars

Cancelable Leases:

Fiscal Year	Space Rental Federal	Space Rental Commercial	Totals
1999	\$27,045	\$4,473	\$31,518
2000	27,735	4,587	32,322
2001	28,442	4,703	33,145
2002	29,168	625	29,793
2003 and thereafter	29,911	641	30,552
Total	<u>\$142,301</u>	<u>\$15,029</u>	<u>\$157,330</u>

Future lease payments are calculated based on the GSA annual rent rate adjustment formula. The annual rent rate adjustment considers two factors: (1) the percentage change in operating costs experi-

enced by GSA in comparable buildings in the area, and (2) 100% of the change in the local Consumer Price Index. The future lease payments do not reflect all the expected leases for the 2000 Decennial Census.

**Note 12. Footnote
Disclosures Related to the
Statement of Budgetary
Resources (Unaudited)**

The BOC has three funding sources: 1) Salaries and Expenses, 2) Periodic Censuses and Programs, 3) Reimbursable Programs.

Salaries and Expenses (S&E) is an annual Congressional appropriation to fund current programs and ongoing surveys. Annual appropriations expire at the end of the first year of the appropriation and are canceled at the end of the sixth year. Upon expiration of an annual appropriation, the obligated and unobligated balances retain their fiscal-year identity, and are maintained separately within an expired account. Obligated balances may be used to liquidate obligations properly chargeable to that fiscal year. The unobligated balance remains available to make legitimate obligation adjustments such as previously unrecorded obligations and to make upward adjustments in previously under-recorded obligations. The BOC received \$147,278,000 for fiscal year 1998 Salaries and Expenses. The net amount of budgetary resources obligated for undelivered orders at the end of the period is

\$7,674,000. An adjustment of \$1,453,000 was made to S&E for recoveries of prior year obligations.

Periodic Censuses and Programs (PCA) is a Congressional no-year appropriation, which funds programs that occur on a cyclical basis. A no-year appropriation is available for obligation without fiscal year limitation. The BOC received \$551,813,000 in new funding for fiscal year 1998. In addition to the new funding, the BOC had a total of \$1,176,000 from prior year funding, and \$3,190,000 of recoveries from prior year obligations. The net amount of budgetary resources obligated for undelivered orders at the end of the period is \$119,987,000

Reimbursable Programs funds are from other organizations, such as the Department of Labor, Health and Human Services, and Justice and Housing and Urban Development, in exchange for BOC survey and data collection activities. In fiscal year 1998, the BOC obtained a total of \$172,359,996 from reimbursable agreements, with the net amount of undelivered orders totaling \$2,759,000. There was also

an adjustment of \$63,301 for prior year recoveries.

The BOC provides centralized services to support the program areas. A working capital fund is maintained to facilitate the processing and allocation of costs for maintaining these centralized administrative, computer, and field support activities. Funding to support the centralized services is obtained via charges to BOC projects.

Note 13. Unexpended Appropriation:

The BOC receives appropriations on both a one year and no year basis. One year appropriations expire at the end of the first year of the appropriation and are canceled at the end of the sixth year. Upon expiration of a one year appropriation, the obligated and unobligated balances retain their fiscal-year identity, and are maintained separately within an expired account. The unobligated balance can be used to make legitimate obligation adjustments such as previously unrecorded obligations and to make upward adjustments in previously under-recorded obligations, but is otherwise not available for expenditures.

No year appropriations may be retained beyond the current fiscal year and are available for obligations until expended.

In thousands of dollars

	1998
Unexpended Appropriation:	
Unobligated:	
Available	\$10,204
Not Available	13,067
Obligated:	
Undelivered Orders	127,661
Total Unexpended Appropriations	\$150,932

Note 14. Revenues from Sales of Goods and Services—Intragovernmental (Unaudited):

The BOC undertakes work for other Federal agencies. Significant work includes collection of labor force and consumer expenditures data for the Bureau of Labor Statistics (BLS), national education and health program data for the Department of Education and the Department of Health and Human Services (HHS), data on crime victimization for the Department of Justice (DOJ), and annual housing data for Housing and Urban Development (HUD).

Five of the largest surveys performed by the BOC on a reimbursable basis are the Current Population Survey (CPS), the American Housing Survey, the National Crime Survey, the Schools and Staffing

Survey and the National Health Interview Survey. The CPS, sponsored jointly by the Bureau of Labor Statistics and the BOC, provides monthly estimates of the labor force. Supplements to the CPS cover many subjects such as family incomes, school enrollment, and tobacco use, and are sponsored by many Federal agencies. The National Health Interview Survey sponsored by the National Center for Health Statistics, which is part of HHS, collects information on the health of the U.S. population. The American Housing Survey, sponsored by HUD, includes a national survey done every two years and metropolitan area surveys that collect data for approximately ten different areas every year. The National Crime Survey, sponsored by the Department of Justice, collects statistics on crime victimization. The Schools and Staffing Survey, sponsored by the Department of Education, consists of seven surveys for public and private elementary and secondary schools, administrators, teachers, and school districts.	In thousands of dollars	
	Revenues from Sales of Goods and Services—Intragovernmental	1998 Unaudited
	Department of Labor	\$50,510
	Department of Health and Human Services	28,167
	Housing and Urban Development	23,072
	Department of Justice	15,997
	Department of Education	10,644
	Agriculture Census	9,439
	Department of Transportation	5,197
	Agency for International Development	4,091
	National Science Foundation	3,112
	Department of Commerce	3,015
	Department of Defense	2,079
	Department of Agriculture	1,042
	Department of Veterans Affairs	387
	Department of Energy	125
	Department of Treasury	68
	Federal, Non-Advance	536
	Others	5,469
	Total	\$162,950

SUPPLEMENTAL STATEMENT AND AUDITORS REPORTS

DEPARTMENT OF COMMERCE
BUREAU OF THE CENSUS**Consolidating Balance Sheet as of September 30, 1998**

(In thousands of dollars)

	Salaries and expenses	Periodic censuses and programs	Working capital fund	Commer- cial activity	Total
ASSETS					
Entity assets:					
Intragovernmental assets:					
Fund balances with treasury (note 2)	\$23,827	\$175,059	\$58,209	\$59,541	\$316,636
Accounts receivable, net (note 3)	0	1	721	1,525	2,247
Total intragovernmental assets	\$23,827	\$175,060	\$58,930	\$61,066	\$318,883
Accounts receivable, net (note 3)	2	14	63	649	728
Prepayments	17	37	1,924	94	2,072
Inventories, net (note 4)	0	0	1,542	0	1,542
Operating materials and supplies, net (note 4)	0	0	761	0	761
Property and equipment, net (note 5)	183	11,407	20,332	(163)	31,759
Other assets	0	0	100	0	100
Total entity assets	\$24,029	\$186,518	\$83,652	\$61,646	\$355,845
Non-entity assets:					
Intragovernmental assets:					
Fund balance with treasury (note 2)		736		134	870
TOTAL ASSETS	\$24,029	\$187,254	\$83,652	\$61,780	\$356,715
LIABILITIES					
Liabilities covered by budgetary resources:					
Intragovernmental liabilities:					
Accounts payable	\$1,473	\$11,207	(\$6,822)	\$1,402	\$7,260
Deferred revenue (note 8)		2		55,485	55,487
Other intragovernmental liabilities (note 6)			5,835		5,835
Total intragovernmental liabilities	1,473	11,209	(987)	56,887	68,582
Accounts payable	1,897	26,172	12,099	1,343	41,511
Lease liabilities (note 11)			126		126
Accrued payroll and benefits (note 7)	(266)	6,870	22,130	(2,653)	26,081
Deferred revenue				6,048	6,048
Other liabilities (note 6)		1,398	(5)	34	1,427
Total liabilities covered by budgetary resources	\$3,104	\$45,649	\$33,363	\$61,659	\$143,775
Liabilities not covered by budgetary resources:					
Intragovernmental liabilities:					
Other intragovernmental liabilities (note 6)			4,111		4,111
Federal employees and veterans benefits (note 10)			33,829		33,829
Unfunded accrued leave			25,841		25,841
Other liabilities (note 6)			1,069		1,069
Total liabilities not covered by budgetary resources:			\$64,850		\$64,850
TOTAL LIABILITIES	\$3,104	\$45,649	\$98,213	\$61,659	\$208,625
NET POSITION					
Fund balances:					
Unexpended appropriations (note 13)	\$20,742	\$130,190			\$150,932
Cumulative results of operations	183	11,415	(14,561)	121	(2,842)
Total net position	\$20,925	\$141,605	(\$14,561)	\$121	\$148,090
TOTAL LIABILITIES AND NET POSITION	\$24,029	\$187,254	\$83,652	\$61,780	\$356,715

The accompanying notes are an integral part of these statements.

Note: The Census Intra-Agency elimination entries are within each line item and therefore have been eliminated in the consolidated total.

Report of Independent Auditors

To the Inspector General of the
Department of Commerce, and the
Director of the Bureau of the Census

We have audited the accompanying consolidated balance sheet of the Bureau of the Census (Census Bureau), a bureau of the Department of Commerce, as of September 30, 1998, and the related consolidating statements of net cost, changes in net position, budgetary resources and financing for the year then ended. These financial statements are the responsibility of the Census Bureau's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin 98-08, *Audit Requirements for Federal Financial Statements*, as amended. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because the Census Bureau did not adequately perform reconciliations and produce accurate financial statements on a timely basis with sufficient quality assurance procedures, we were unable to obtain sufficient evidential support for the amounts presented in the statements of net cost, changes in net position, budgetary resources, and financing for the year ended September 30, 1998. As a result of these limitations, we were unable to satisfy ourselves as to the amounts recorded for the statements of net cost, changes in net position, budgetary resources, and financing.

As described in Note 1, Census Bureau prepared the accompanying financial statements in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board. The hierarchy is a comprehensive basis of accounting other than generally accepted accounting principles.

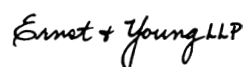
Because of the matters discussed in the second preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the statements of net cost, changes in net position, budgetary resources, and financing for the year ended September 30, 1998.

In our opinion, the consolidated balance sheet of the Census Bureau at September 30, 1998, presents fairly, in all material respects, the financial position of the Census Bureau at September 30, 1998 in accordance with the accounting principles described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The information presented in the Overview of the Census Bureau and the Supplemental Statements is not a required part of the principal financial statements, but is supplementary information required by Office of Management and Budget Bulletin 97-01, *Form and Content of Agency Financial Statements*. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

In accordance with **Government Auditing Standards**, we have issued our reports dated February 19, 1999 on our consideration of the Census Bureau's internal controls and on its compliance with applicable laws and regulations.

February 19, 1999



Report of Independent Auditors on Internal Control

To the Inspector General of the
Department of Commerce and the
Director of the Bureau of the Census

We have audited the accompanying consolidated balance sheet of the Bureau of the Census (Census Bureau), a bureau of the Department of Commerce, as of September 30, 1998, and the related consolidating statements of net cost, changes in net position, budgetary resources and financing for the year then ended, and have issued our report thereon dated February 19, 1999. The report states that because of matters discussed therein, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the statements of net cost, changes in net position, budgetary resources, and financing for the year ended September 30, 1998.

Except for the matters discussed in the third paragraph of our report on the financial statements, we conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin 98-08, *Audit Requirements for Federal Financial Statements*, as amended. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements referred to above are free of material misstatement.

In planning and performing our audit of the financial statements of the Census Bureau, as of and for the year ended September 30, 1998, we obtained an understanding of internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and to determine whether the internal controls meet the objectives identified in the following paragraph. Our

consideration included obtaining an understanding of the significant internal control policies and procedures and assessing the level of control risk relevant to all significant cycles, classes of transactions, or account balances; and for those significant internal control policies and procedures that have been properly designed and placed in operation, performing sufficient tests to assess more fully whether the controls are effective and working as designed to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

The management of the Census Bureau is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs on internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board; and data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Our evaluation of the controls for performance information was limited to those controls that ensure the existence and completeness of the information. Because of inherent limitations in any internal control, errors and irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that

procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In addition, with respect to internal controls related to performance measures reported in the overview of the Census Bureau, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 98-08. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 98-08, *Audit Requirements for Federal Financial Statements*, as amended. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control which might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material

weaknesses as defined above. We have summarized the reportable conditions below, the first two of which are considered material weaknesses as defined above.

Material Weaknesses

1. Financial Management

The CFO Act, and in particular OMB Bulletin 97-01, require that financial statements be the culmination of a systematic accounting process. The statements are to result from an accounting system that is an integral part of a total financial management system containing sufficient structure, effective internal controls, and reliable data. Our Fiscal Year (FY) 1998 procedures found that the Census Bureau lacked adequate financial management systems, reports and oversight to prepare timely and accurate financial statements.

The initial set of financial statements provided to us for review required significant corrections. Many of the individual statements and related footnotes contained mathematical errors and were not totaled properly. Additionally, many of the footnote disclosure amounts did not agree to the corresponding financial statement line item references. For example, amounts referenced in the financial statement footnotes for property and equipment, accounts receivable and lease liabilities did not agree to the respective amounts in the financial statements. However, we did note significant improvement in subsequent drafts of the financial statements.

Consistent with the prior year, we continued to find that the Census Bureau did not reconcile certain key financial statement accounts, including fund balance with treasury, fixed assets, deferred revenue, accrued payroll, inventory and accounts receivable, or resolve reconciling items in a timely manner. Reconciliations contained numerous clerical errors that could have been avoided with proper review. Additionally, when supervisory reviews were performed, they were not always documented. Timely completion of reconciliations would assure the Census

Bureau that required adjustments have been identified and financial statement balances are complete.

We also found that the Census Bureau did not adequately plan and prepare for certain programming and system requirements with respect to the new Commerce Administrative Management System (CAMS) accounting system. During implementation of the accounts payable module, Census did not clearly outline the reporting requirements for a subsidiary report for either outstanding accounts payable or outstanding undelivered orders. Both of these reports existed in the legacy accounting system. Additionally, we found similar deficiencies during implementation of the reimbursable agreements module. Specifically, we found that the Census Bureau began implementing the module at the beginning of FY 1998, but did not prepare an accounts receivable/deferred revenue subsidiary until after the September close.

Recommendation

We recommend that the Principal Associate Director and Chief Financial Officer of the Census Bureau:

- define the information system requirements to efficiently manage its operations and then develop or modify reports to meet its reporting and reconciliation requirements ;
- ensure that appropriate and adequate quality assurance procedures are performed during the financial statement preparation process;
- identify and resolve differences between subsidiary records, general ledger, and control accounts in a timely manner;
- prepare, review, and document reconciliations in accordance with the Department of Commerce (DOC) Accounting Principles and Standards Handbook; and
- evaluate its reconciliation formats for clarity

and conciseness to allow an independent reviewer to follow and comprehend the reconciliation.

2. Accounts Payable and Undelivered Orders

The Census Bureau is in the process of implementing CAMS and discontinuing the use of the legacy accounting system. We found that critical reports required to prepare the financial statements were not fully developed as part of the standard reporting package. Specifically, we found that a listing of outstanding accounts payable and undelivered orders was not included as part of the standard system reports. These were standard reports under the legacy accounting system. The Department of Commerce Accounting Principles and Standards Handbook (Accounting Handbook) requires preparation of timely reports to meet both internal and external reporting requirements. Additionally, the Accounting Handbook requires system design and procedures to ensure accurate and complete financial reports to assist in management's decision making process.

The Census Bureau experienced significant delays and required significant staff and system resources to prepare valid and complete listings of CAMS outstanding accounts payable and undelivered orders at September 30, 1998. Specifically, we found that system reports and oversight procedures related to accounts payable were not sufficient to ensure proper cut-off at year-end. Current systems procedures did not function as designed to properly accrue outstanding accounts payable and undelivered orders as of the balance sheet date. For example, we found that certain accruals or undelivered orders were overstated while others were not recorded. Additionally, we found that certain reports generated from CAMS contained errors and negative balances that required manual correction.

Developing and correcting these reports required the Census Bureau to divert significant staff and computer resources to address system limitations. Finally, in some instances, employees were not sufficiently trained in processing transactions related to accounts payable and undelivered orders.

In addition to deficiencies in CAMS, we also found deficiencies with the legacy accounting system. The legacy accounting system was used to process accounts payable activity prior to the implementation of CAMS. Specifically, we found that procedures and oversight related to the accounts payable activity processed in the legacy accounting system, including year-end cut-off procedures, were not sufficient to capture or to record, or both, all liabilities as of the balance sheet date. We also found that several accruals were duplicated. For example, we identified a \$3.3 million duplicate accrual. After further investigation, this item was deobligated by the Census Bureau. We found that in some instances, employees were not sufficiently trained in processing transactions related to accounts payable. In addition, we noted that the Census Bureau was required to pay interest under the Prompt Payment Act for various transactions. With the Decennial Census approaching, the volume of transactions processed by the Census Bureau will continue to increase. Without adequate procedures for processing accounts payable timely, the Census Bureau may experience additional delays and be required to pay additional interest in accordance with the Prompt Payment Act.

These deficiencies in preparing valid and complete listings of accounts payable and undelivered orders impact the Census Bureau's adherence to the U.S. Treasury Financial Manual. Specifically, U.S. Treasury Financial Manual requires the review and certification of Treasury form 2108 - Year-End Closing Statement. Timely review and certification of Treasury form 2108

by Census Bureau management is necessary to ensure accurate data is submitted to the U.S. Treasury.

These deficiencies in the CAMS and legacy accounting systems and management oversight procedures resulted in approximately \$16 million in adjustments to the accounts payable balance after the financial statements were prepared by the Census Bureau personnel and provided to us on January 13, 1999.

Recommendation

We recommend that the Principal Associate Director and Chief Financial Officer of the Census Bureau:

- clearly define the CAMS report package requirements to ensure that outstanding accounts payables and undelivered orders are valid and properly valued;
- improve its training for processing accounts payable and internal controls to effectively detect errors and irregularities with respect to accounts payable and undelivered orders in a timely manner; and
- develop appropriate policies and procedures to ensure proper cut-off and review of accounts payable and undelivered order balances reported at year-end.

Reportable Conditions

3. Fixed Assets (Repeat Condition)

The Census Bureau performs periodic inventory of fixed assets and reconciles its perpetual records to subsidiary records. We found that the Census Bureau did not timely or adequately research and resolve differences between these records. For example, we found approximately \$1.5 million of equipment with incorrect acquisition dates and nearly \$1.8 million in the fixed assets procurement account that required correction at year-end. Additionally, the reconciliation format continues to be difficult to follow. We noted similar deficiencies in prior year audits. The lack of timely resolution of reconciling items, coupled with the

expected increase in volume of activity for the Decennial Census, increases the risk of misstatements related to fixed assets.

Recommendation

We recommend that the Principal Associate Director and Chief Financial Officer of the Census Bureau:

- ensure strict adherence to the DOC Accounting Handbook to identify and resolve in a timely manner the difference between the fixed asset perpetual records and subsidiary records and
- evaluate its reconciliation format with respect to fixed assets for clarity and conciseness to expedite the review process.

4. Lack of Policies and Procedures for Determining Cost of Inventory (*Repeat Condition*)

The Census Bureau does not have policies and procedures to determine the actual cost of items held in inventory for sale to other government agencies and to the general public. The Census Bureau maintains an inventory of finished products available for sale to other governmental agencies and to the general public. The Census Bureau's inventory consists of CD-ROMS, diskettes, technical documentation and videotapes. While the Census Bureau maintains a perpetual inventory system to reconcile inventory records to physical counts at year-end, it does not have the capability to determine the actual cost of items in inventory. For example, the Systems & Programming Branch performs specific procedures for the production of CD-ROMS, but does not account for costs by CD. By not accounting for labor and indirect charges to specific CDs, the Census Bureau does not have a cost base to determine the individual unit price. Instead, the Census Bureau relies on outdated pricing data developed in 1992. The Statement of Federal Financial

Accounting Standards, Number 3, Accounting for Inventory and Related Property, requires valuing of inventory at either historical cost or latest acquisition cost. While the Census Bureau has drafted policies and procedures for determining the cost of items held in inventory, these policies and procedures have not been implemented.

Recommendation

We recommend that the Principal Associate Director and Chief Financial Officer of the Census Bureau:

- ensure that CAMS allows for the accounting for, and tracking of, historical cost data for inventory and
- develop inventory pricing based on the historical cost captured by CAMS.

5. Working Capital Fund Surcharge

During FY 1997 the Census Bureau established a working capital fund to replace their previous cost allocation system. The Census Bureau policy requires that the application of indirect costs through the working capital fund be based on predetermined rates. Furthermore, the Statement of Federal Financial Accounting Standards No. 4 (SFFAS) requires the allocation of indirect cost by "(a) directly tracing costs wherever feasible and economically practicable, (b) assigning costs on a cause-and-effect basis, or (c) allocating costs on a reasonable and consistent basis". During FY 1998, the Census Bureau determined that it would not recover the full cost of its projects under the current rate structure. To correct the situation, the Census Bureau applied a surcharge only to those projects not meeting their FY 1998 budgeted levels for direct labor. The application of the surcharge is not consistent with the Census Bureau and SFFAS policy of applying costs evenly using a predetermined rate structure. Additionally, application of this policy could

potentially impact the effectiveness of the internal control structure as it relates to compliance with laws and regulations.

Recommendation

We recommend that the Principal Associate Director and Chief Financial Officer of the Census Bureau:

- eliminate the use of a surcharge to recover any deficit in its working capital fund and
- periodically review its rates through the year and adjust accordingly to recover/refund any deficit or surplus.

6. Computer Controls

In connection with the annual audit of the financial statements of the Census Bureau for FY 1998, we conducted a general controls review of the information technology processes related to the CAMS application systems. OMB Circular No. A-130 requires:

- (1) standard documentation and procedures for certification and accreditation of systems;
- (2) records management programs that provide adequate and proper documentation of agency activities;
- (3) agencies to develop internal information policies and procedures and oversee, evaluate, and otherwise periodically review agency information resources management activities; and
- (4) agency plans to assure that there is an ability to recover and provide service sufficient to meet the minimal needs of users of the system noting that manual procedures are generally not a viable back-up option. In addition to A-130, the Oklahoma City bombing incident in 1995 has increased the responsibilities of agencies to re-assess the risk of federal buildings being susceptible to terrorist acts and to implement security measures that seek to mitigate this risk.

We noted the following deficiencies as part of our review:

- *Entity-wide Security*—No certification or accreditation is documented for the CAMS system. In addition, the current security plan for CAMS has not been updated to reflect the current environment.
- *Program Change Controls*—While we did find some documentation of program change activity, current policies and procedures do not mandate formal documentation for all program change requests, program change approvals, and implementation requests.
- *Logical Access Controls*—There are no formal follow-up procedures on system usage by users, systems and database administrators. In addition, Help Desk personnel, who are responsible for granting user access, do not have access to the Oracle database to properly view and monitor the access granted to users. Instead, they rely on a spreadsheet compiled from approved user access requests.
- *Contingency Plan*—While the Census Bureau has a Disaster Recovery Plan, the plan has not been tested. In addition, the current backup procedures do not incorporate the use of off-site storage. The Census Bureau personnel have indicated their awareness of this issue and are in the process of resolving it.
- *Physical Security and Environmental Controls*—There are no security controls to prevent unauthorized access of vehicles to the facility. It is possible to park within fifty feet of the facility without being challenged.

Recommendation

We recommend that the Principal Associate Director and Chief Financial Officer of the Census Bureau:

- ensure that the certification and accreditation of the CAMS system is completed and that the security plan is updated to reflect the current environment and procedures;

- modify its policies and procedures to mandate complete documentation of program change controls in order to maintain accountability and an audit trail;
- review the system usage of significant information technology personnel and grant Help Desk personnel "read-only" access to Oracle user data in order to properly report and review user access;
- schedule a test of the Disaster Recovery Plan for effectiveness and completeness and incorporate the results and follow-up activity into the plan;
- ensure that procedures for off-site storage of data back-ups to mitigate the risk that data may be destroyed as a result of a disaster or disruption at the Bowie Computer Center to limit any loss of data to the period of time since the last backup procedures were completed; and
- enhance physical security at the Bowie Computer Center, including moving the parking areas away from the facility or installing a sentry post in the outer perimeter area to prevent unauthorized vehicles from close proximity to the data center.

Status of Prior Year Findings

In our reports on the results of our FY 1997 audit of the Census Bureau's financial statements, a number of issues were raised relating to the internal controls of the Census Bureau. We have summarized below the current status of those items not already addressed in this report:

Unbilled Accounts Receivable Not Analyzed

Properly—We recommended that the Principal Associate Director and Chief Financial Officer of the Census Bureau ensure that outstanding accounts receivable balances, including unbilled amounts, be analyzed periodically to determine if outstanding amounts are collectible or that appropriate actions are taken to resolve uncollectible amounts.

Current Status—During our testing of accounts receivable, we found that the Census Bureau had

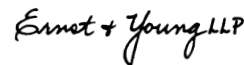
adequately resolved the deficiencies related to unbilled accounts identified in previous years. We also confirmed that deficit letters were sent prior to year-end and that they were responded to satisfactorily.

We have reviewed our findings and recommendations with management of the Census Bureau. They concur with our findings and recommendations and will provide an audit action plan to the Office of Inspector General in accordance with applicable directives of the Department of Commerce.

In addition to the reportable conditions described above, we noted certain other matters involving internal control and its operations that were reported to the management of the Census Bureau in a separate letter dated February 19, 1999.

This report is intended for the use of the management of the Census Bureau, the Office of Inspector General, Department of Commerce, the Office of Management and Budget, and Congress and is not intended to be and should not be used by anyone other than the specified parties.

February 19, 1999



Report of Independent Auditors on Compliance with Laws and Regulations

To the Inspector General of the Department of Commerce, and the Director of the Bureau of the Census

We have audited the accompanying consolidated balance sheet of the Bureau of the Census (Census Bureau), a bureau of the Department of Commerce, as of September 30, 1998, and the related consolidating statements of net cost, changes in net position, budgetary resources and financing for the year then ended, and have issued our report thereon dated February 19, 1999. The report states that because of the matters discussed therein, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the statements of net cost, changes in net position, budgetary resources, and financing for the year ended September 30, 1998.

Except for the matters discussed in the third paragraph of our report on the financial statements, we conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 98-08, *Audit Requirements for Federal Financial Statements*, as amended.

The management of the Census Bureau is responsible for complying with laws and regulations applicable to the Census Bureau. As part of obtaining reasonable assurance about whether the Census Bureau's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 98-08, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996.

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the preceding paragraph

exclusive of FFMIA that are required to be reported under **Government Auditing Standards** or OMB Bulletin 98-08, as amended.

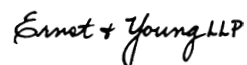
At the request of the Office of Inspector General, Department of Commerce, we performed tests of compliance to determine whether the Census Bureau's financial management systems substantially comply with the Federal financial management systems requirements, applicable accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin 98-08, as amended.

The results of our tests disclosed instances where the Census Bureau's financial management systems did not substantially comply with certain of the requirements discussed in the preceding paragraph. The Report of Independent Auditors on Internal Control includes information related to the financial management systems that were found not to comply with the requirements, relevant facts pertaining to the noncompliance and our recommendations related to the specific issues presented.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended for the use of the management of the Census Bureau, the Office of Inspector General, Department of Commerce, the Office of Management and Budget, and Congress and is not intended to be and should not be used by anyone other than the specified parties.

February 19, 1999



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